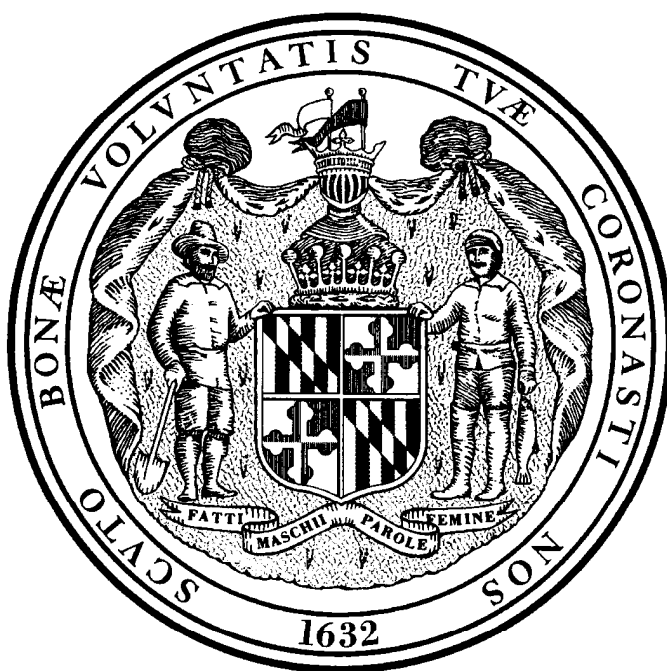


COMMISSION ON EDUCATION FINANCE, EQUITY, AND EXCELLENCE

Final Report



ANNAPOLIS, MARYLAND
JANUARY 2002

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Commission on Education Finance, Equity, and Excellence

Dr. Alvin Thornton
Chairman

January 18, 2002

The Honorable Parris N. Glendening
Governor of Maryland

The Honorable Thomas V. Mike Miller, Jr.
President of the Senate

The Honorable Casper R. Taylor, Jr.
Speaker of the House

Gentlemen:

On behalf of the Commission on Education Finance, Equity, and Excellence, I am pleased to transmit to you the Commission's Final Report and the two-volume Technical Supplement to this report.

The Commission was established in the fall of 1999 pursuant to Chapter 601 of the Laws of Maryland (1999). It was charged with reviewing current education financing formulas and accountability measures and making recommendations: (1) for ensuring adequacy of funding for students in public schools; (2) for ensuring equity in funding for students in public schools; (3) for ensuring excellence in school systems and student performance; (4) that provide for a smooth transition when current educational funding initiatives sunset at the end of fiscal 2002; (5) regarding the issue of whether it is more effective to provide additional State aid in the form of targeted grants or by increasing funding through the base formula; and (6) for ensuring that local property tax policies do not affect the equitable allocation of funding for students in public schools. The Commission worked diligently during the past two years to implement its broad statutory charge.

Throughout its deliberations, the Commission remained cognizant of the priority status that public education has among the responsibilities of State government. This priority status is reflected in Article VIII, Section 1 of the Maryland Constitution, which requires the State to establish a "thorough and efficient System of Free Public Schools." The Commission's final report recommends enhancements to Maryland's school finance and accountability systems that reflect the constitutional priority granted to public education in Maryland as well as the Commission's belief that the State's economic health, regional and national competitiveness, and political and social development relate directly and uniquely to the quality of the State's public school system.

The Honorable Parris N. Glendening
The Honorable Thomas V. Mike Miller, Jr.
The Honorable Casper R. Taylor, Jr.
January 18, 2002
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The Commission's report reflects the importance of Maryland's public school system to the general welfare of the State; proposes an education finance system that is equitable and adequate; and creates a solid financial foundation to support the State's nationally recognized high academic performance standards. In total, the Commission's proposal calls for an increase in State aid of \$1.1 billion by fiscal 2007. The Commission recognizes that the declining economy is having an adverse impact on the State's fiscal condition and that the fiscal outlook for the near future is not positive. However, the Commission believes that implementing its proposed recommendations to achieve adequate funding of Maryland's public schools is of critical importance and must be undertaken regardless of the fiscal condition of the State. Therefore, the Commission urges you and other members of the General Assembly to make every possible effort to re-prioritize appropriations in the fiscal 2003 State budget as necessary to begin implementation of the Commission's recommendations in fiscal 2003. The Commission also recommends that the State consider establishing new sources of revenue to provide additional funding to assist in implementing the Commission's proposal in subsequent years.

Significant appreciation should be extended to the people of Maryland and their State and local elected leaders who responded to the Commission's call to participate in numerous public hearings and respond to questions related to your charge to the Commission. They did so diligently and helped the Commission arrive at the broad and deep consensus reflected in its Final Report. They expressed willingness to sacrifice to make sure their children receive a high quality education. I also wish to express sincere appreciation to my fellow Commissioners for the time and effort they devoted to the work of the Commission. Extensive work sessions, considerable travel throughout the State, and the need to read and digest voluminous documents did not deter them as they worked collegially to develop meaningful recommendations for your consideration. Of course, our work would not have been possible without the professional and highly competent services of the staffs of the Maryland State Department of Education and Department of Legislative Services.

My colleagues and I are grateful for the opportunity you gave us to participate in this important endeavor. We believe the Commission's careful analysis of Maryland's present school finance and accountability systems led to thoughtful and comprehensive recommendations that, if implemented, will maintain Maryland's place at the forefront of educational progress. It is now up to Maryland's policy-makers to ensure that the recommendations become the foundation on which all of Maryland's students may confidently rest their hopes for a brighter future.

Sincerely,



Alvin Thornton, Ph.D.
Chairman

AT/jac

cc: Members, Commission on Education Finance, Equity, and Excellence

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Executive Summary

I. Charge and Overview

The Commission on Education Finance, Equity, and Excellence was established in the fall of 1999 pursuant to legislation enacted during the 1999 session. The 27-member commission was charged with reviewing the State's current school finance system and accountability measures and making recommendations: (1) for ensuring adequacy of funding for students in public schools; (2) for ensuring equity in funding for students in public schools; (3) for ensuring excellence in school systems and student performance; (4) that provide for a smooth transition when current educational funding initiatives sunset at the end of fiscal 2002; (5) regarding the issue of whether it is more effective to provide additional State aid in the form of targeted grants or by increasing funding through the base formula; and (6) for ensuring that local property tax policies do not affect the equitable allocation of funding for students in public schools.

The legislation that established the Commission required that a final report be submitted to the Governor and General Assembly by October 15, 2000. However, during the 2000 interim, the Commission determined that many of the most significant issues relating to Maryland's school finance system could not be resolved properly until the Commission had thoroughly explored the issue of whether Maryland's schools are being adequately funded. The Commission obtained permission from the Governor and Presiding Officers to submit interim findings and recommendations in December 2000 and to continue its work during the 2001 interim. To facilitate the Commission's evaluation of issues relating to adequacy of education

funding, the Commission contracted with Augenblick & Myers, Inc. (A&M) in November 2000 to complete an adequacy study using two different methodologies by the spring of 2001.

The Commission's Interim Report, issued in December 2000, included recommendations that would have resulted in \$133.4 million in new education funding for fiscal 2002. The Interim Report also recommended that the termination provisions for 23 education programs (providing approximately \$250 million in State aid) be extended for one year while the Commission continued its appraisal of the State's school finance structure. The Commission's interim recommendations were subsequently included in legislation that was introduced during the 2001 Session. The final version of the bill that was passed by the General Assembly extended the termination dates for the 23 programs until the end of fiscal 2003 and mandated that funding for several other existing programs (providing approximately \$90 million in State aid) continue in fiscal 2003. However, the final legislation did not include the new education funding recommended by the Commission.

This report outlines the Commission's work in 2001, highlights the Commission's findings, discusses the principles that guided the Commission's work, and recommends enhancements and revisions to Maryland's school finance and accountability systems.

II. Summary of the Commission's Work in 2001

After submitting its Interim Report to the Governor and General Assembly in December 2000, the Commission continued to

work diligently to implement its broad statutory charge. In total, the Commission held eight work sessions and five regional public hearings before issuing a draft of its findings and recommendations on November 9, 2001. The draft report outlined the Commission's recommendations for enhancing Maryland's school finance system and provided a brief summary of the guiding principals reflected in the Commission's recommendations. The Commission held a sixth public hearing in Annapolis on November 19, 2001, for the purpose of receiving input from the public on its proposed recommendations. The vast majority of speakers who testified at the hearing expressed support for the Commission's recommendations. Based on information received at three work sessions held after the issuance of the Commission's draft report and input received from the public at the November 19 hearing, the Commission adopted a proposal that would result in an increase in State aid of approximately \$1.1 billion over the next five years.

III. Defining and Measuring Adequate Funding

Much of the Commission's work during the 2001 interim focused on measuring "adequate" funding and developing a school finance structure that is based on adequacy. According to A&M, "[w]hen most policy makers say that they want to study education 'adequacy' what they mean is that they want to set the parameters in a state aid formula so that school districts are assured that they have enough money -- where enough money means a sufficient amount to provide a specific set of 'inputs' to accomplish a particular set of 'outcomes.'"¹ Based on this definition,

schools are being adequately funded when the amount of funding provided is sufficient to allow students, schools, and school systems to meet prescribed State performance standards.

The Commission contracted with A&M to conduct a two pronged adequacy study for Maryland using the "professional judgement" and the "successful schools" approaches. Both methods work under the theory that adequacy has two components: (1) a base cost per pupil common to all districts (the parameter that could be used to establish the per student aid amount that is distributed under Maryland's foundation program); and (2) a series of adjustments to the base to reflect the cost pressures associated with different pupils, different programs, or different characteristics of school districts. The professional judgement approach uses multiple panels of educators to determine the kinds of resources needed to achieve a particular set of objectives in prototypical elementary, middle, and high schools. The resources identified by the panels are then "priced out" based on salary levels and other factors to determine the per pupil costs. The successful schools approach examines the basic spending of schools that meet performance objectives established by the state, where basic spending excludes transportation and services provided specifically to students with special needs.

On June 7, 2001, A&M presented the preliminary results of its adequacy studies to the Commission. On the same date, the Commission received a briefing on the results of an adequacy study that was conducted by Management Analysis and Planning, Inc. (MAP) on behalf of the New Maryland Education Coalition. Based on these studies, the Commission estimated that there is a gap, ranging from \$377 million to \$2.7 billion, between the resources currently available to

¹See Document 1 (page 1) in the Technical Supplement to this report.

school systems and “adequate” resources. The Commission spent most of the remainder of the interim analyzing the results of the A&M and MAP adequacy studies and determining how to use these results to enhance Maryland’s school finance system.

Both of the A&M studies produced a base per pupil cost -- an estimate of what it costs to adequately educate a student who has no special needs. The base funding level identified by the Professional Judgement Study is \$6,612 per pupil, and the Successful Schools Study estimated an adequate base cost of \$5,969. The A&M report states that these base cost figures “should be viewed as reasonable estimates rather than precise calculations” and estimates that the figures are “within plus or minus 10 percent of being correct.”²

In addition to the base cost estimate, the Professional Judgement Study also developed estimates of the costs associated with adequately educating students with special needs -- i.e., special education students, economically disadvantaged students, and students with limited English proficiency. The professional judgement panels designed programs, resources, and services for prototype schools that included statewide average proportions of students with special needs. Based on the work of the panels, A&M separated the programs and resources designed to serve special needs students from the basic resources needed to serve the general student population. The full per pupil cost of the prototypes schools was estimated at \$10,631. The additional costs associated with special needs students were related to the professional judgement base cost of \$6,612 to develop “per pupil weights” for each category

of special needs students. A&M calculated per pupil weights of 1.17 for special education students and 1.39 for economically disadvantaged students. A&M also assumed a per pupil weight of 1.00 for students with limited English proficiency. To account for the fact that 21 percent of economically disadvantaged students also fall into one of the other special needs categories, the Commission reduced the weight for economically disadvantaged students by 21 percent, from 1.39 to 1.10.

In addition to reviewing the results of the adequacy studies conducted by A&M, the Commission reviewed the Professional Judgement Study conducted by MAP on behalf of the New Maryland Education Coalition. The MAP study used a methodology that was very similar to the methodology used in the A&M Professional Judgement Study. The main differences between the studies relate to the manner in which they reported results. The MAP study did not separate the costs of programs and resources designated for all students from the costs of programs and resources designated for special needs students. Total per pupil costs were given for the MAP prototype schools, but no attempt was made to identify a base cost or the specific costs associated with categories of special needs students. Also, the recommendations of the three panels were not merged, so three separate estimates of total per pupil adequacy costs -- \$7,461, \$9,215, and \$9,313 -- were reported. Although an exact parallel between the MAP and A&M results cannot be drawn, the per pupil costs identified in the MAP study can most reasonably be compared to the total per pupil cost figure of \$10,631 calculated for the A&M Professional Judgement Study. The differences between the A&M and MAP results indicate that there is a range of reasonable estimates of the funds needed to

²See Document 24 (page 11) of the Technical Supplement.

allow all schools to meet the State's performance standards.

IV. Findings

Using the two base cost estimates derived from A&M's Professional Judgement and Successful Schools studies and the per pupil weights for special needs students derived from the A&M Professional Judgement Study, the Commission assessed the extent to which budgeted fiscal 2002 education resources meet or approach adequacy targets. In general, the Commission found that the school systems furthest from the per pupil adequacy targets derived from the adequacy studies were those with low wealth and/or high proportions of special needs students. The Commission also found that school systems with the largest differences between adequate funding and fiscal 2002 funding generally had the lowest test scores on the Maryland School Performance Assessment Program (MSPAP) in 2000. These findings suggest that there is a need to target a greater share of State aid to school systems with low wealth and/or high proportions of special needs students.

The Commission operated under the assumption that funding for public education in Maryland is a shared responsibility of State and local governments. In order to evaluate properly the role of local governments in the State's school finance system, the Commission reviewed recent trends in local education funding. The Commission learned that, statewide, per pupil local appropriations increased between fiscal 1997 and 2002 at a faster rate than per pupil wealth, indicating an overall increase in local education tax effort as measured on a per pupil basis. However, the Commission also learned that local support for education is not consistent across the 24 local school systems. Some jurisdictions have not significantly enhanced their education aid

in recent years. The Commission believes that this is due to a variety of factors, including the existence of local tax and revenue restrictions, declining local effort, and declining local wealth.

In order to address issues relating to accountability in the State's school finance system, the Commission reviewed the theory of State and local obligations that is inherent in the adequacy studies conducted by A&M. The theory underlying the adequacy studies is that the primary obligations of the State in a standards-based education system are to: (1) establish performance standards for students, schools, and school systems; (2) ensure that schools and school systems have adequate funding necessary to meet the State's performance standards; and (3) hold schools and school systems accountable for making progress toward, and ultimately meeting, the State's performance standards. Accountability, under this theory, is based primarily on educational outputs. This view of accountability is in conflict with various provisions of current law, for which accountability is based on mandated educational inputs, such as the implementation of specific programs, the reduction of class sizes, or increases to teacher salaries. In light of the existence of Maryland's nationally recognized performance standards and the State's demonstrated efforts to evaluate and improve these standards, the Commission determined that the State should move towards developing a finance and accountability system that properly reflects the roles of State and local governments in a standards-based education system.

V. The Commission's Proposal

Guiding Principles

The Commission's recommendations are based on empirical data derived from the A&M and MAP adequacy studies and four major principles discussed below that the Commission used to guide its decisions and to arrive at a proposal for enhancing Maryland's school finance system.

Adequacy: The Commission believes there should be a direct link between what is expected of school systems and the level of funding that school systems receive. A proper model for funding school systems should be based on the projected costs associated with meeting State performance standards, including the additional costs associated with providing services to students with special needs.

Equity: The Commission believes that educational opportunities should not depend on a jurisdiction's relative ability to raise revenue from local sources. Accordingly, the Commission worked under the premise that, to the extent practicable, funding for education should be wealth-equalized so that per pupil State aid in less wealthy jurisdictions is greater than per pupil State aid in more wealthy jurisdictions.

Simplicity: Many of the approximately 50 State aid programs that exist under current law were created in recent years in order to enhance State aid for education beyond the annual mandated increases provided under the State's larger funding programs (e.g., the Basic Current Expense formula). The Commission believes that the State's school finance system should be simplified and that the majority of State aid should be funneled through four State aid formulas -- i.e., the

foundation program and one aid formula for each of the three special needs populations.

Flexibility: Most existing State aid programs contain mandates on how funding from the program must be spent. The Commission believes that many of these mandates are unnecessarily restrictive. Since local boards of education and superintendents are generally in the best position to make decisions about the types of resources that are needed in their jurisdictions, the Commission believes that most State aid should be distributed in the form of flexible block grants.

Enhancement of Maryland's School Finance System

Base Cost: The Commission recommends that State funding for its foundation program -- the Basic Current Expense formula -- be increased to reflect the base cost calculated in the A&M Successful Schools Study. The Commission chose the successful schools base cost because: (1) it was derived using a methodology that establishes a rational link between the State's performance standards and the amount of State aid provided for education; (2) it was based on actual spending in schools that are meeting State performance standards; (3) it represents a middle ground between the least and most expensive estimates of Maryland's adequacy needs; and (4) the methodology used to derive this figure has been upheld by the courts in at least one other state as a sound basis for calculating adequate education funding.

Students with Special Needs: The Commission recommends that the State provide supplemental funding above the base cost level for students with special needs. Specifically, the Commission recommends using the weights developed in the A&M Professional Judgement Study to set the

funding levels for three categorical programs -- one based on special education enrollment, one based on the enrollment of students who are eligible for free and reduced price meals, and one based on enrollment of students with limited English proficiency. The Commission estimates that funding provided on the basis of special needs would increase from 19 percent of total State aid in fiscal 2002 to 28 percent of total State aid in fiscal 2007.

Cost of Education: The Commission believes that there is a need to adjust State aid to reflect differences in the cost of providing educational services in different jurisdictions. Although it is somewhat out-dated, the Commission used the Geographic Cost of Education Index (GCEI) prepared for the National Center for Education Statistics as the best existing estimate of these differences. The GCEI is a “hedonic” cost index that estimates the different costs of hiring personnel in different geographic areas based on cost of living differences as well as the desirability of intangible factors present in the region that may influence employment decisions, such as crime rate and weather. However, the GCEI was developed using 1993 data and may not reflect present economic or hedonic realities. Other cost of living indices were considered by the Commission but rejected as inappropriate measures of education costs. In order to ensure that education funding accurately reflects differences in cost of education, the Commission recommends that a Maryland-specific geographic cost of education index be developed and used to adjust State education aid beginning in fiscal 2005.

Guaranteed Tax Base: The Commission recommends that the State establish a Guaranteed Tax Base (GTB) program to provide local governments in low wealth jurisdictions with a financial incentive to fund

public schools. Funding for the GTB program would be distributed based on local wealth and local education tax effort.

Student Transportation: The Commission’s proposal includes additional State aid for student transportation. Fifteen school systems that experienced enrollment growth between 1981 and 1996 would receive a funding enhancement to be added to their base transportation grant. In addition, all school systems would received additional funding for disabled students who require special transportation services.

Consolidation: The Commission recommends that the majority of the approximately 50 existing State aid programs be eliminated. Under the Commission’s proposal, funding that would have flowed through the eliminated programs is used to enhance the funding provided through the foundation formula or through one of the three formulas for special needs students.

Wealth Equalization of Categorical Funding: Based on its examination of the relationship between adequate funding and wealth, the Commission recommends that a greater percentage of State aid be wealth equalized so that the per pupil State aid provided to each school system is inversely related to its per pupil wealth. Under the Commission’s proposal, it is estimated that the proportion of State aid that is wealth equalized would increase from 65 percent in fiscal 2002 to 80 percent in fiscal 2007.

State/Local Shares: The Commission recommends that the State move towards providing a greater share of total education spending. By fiscal 2007, the Commission’s proposal includes a 50 percent State share of funding for special needs students and a 45 percent State share of growth in the per pupil foundation level. Under the Commission’s

proposal, it is estimated that the State share of total education funding would increase from 41 percent in fiscal 2002 to 49 percent in fiscal 2007.

Phase-in Period: The Commission is proposing a five-year phase in of its proposal, beginning in fiscal 2003. In recognition of the State's current fiscal condition and the need to identify new revenues to pay for the full recommendation, the Commission's proposal begins with lower funding increases in fiscal 2003 and 2004, followed by more substantial increases in fiscal 2005 through 2007.

Revenue Sources: The Commission urges the Governor and the General Assembly to reprioritize appropriations in the State budget as necessary to begin implementing the Commission's recommendations in fiscal 2003. The Commission recommends that the Governor and General Assembly consider establishing new revenue sources to provide additional funds to assist in implementing the Commission's recommendations in subsequent years.

State Aid Under the Commission's Proposal

An overview of the characteristics of the school finance model recommended by the Commission is shown in **Exhibit ES.1**. The exhibit shows estimates of total State funding for fiscal 2002 through 2007 and estimated increases in State education funding between fiscal 2003 and 2007, above those that would occur if current law did not change. Under the model, State funding increases by \$1.8 billion between fiscal 2002 and 2007, from a total of \$2.9 billion in fiscal 2002 to a total of \$4.7 billion in fiscal 2007. Approximately \$700 million of this \$1.8 billion increase would occur even if current law governing Maryland's school finance system did not

change. Thus, the new model calls for an increase in funding of approximately \$1.1 billion by fiscal 2007. State education aid estimated on a per pupil basis would increase from approximately \$3,500 in fiscal 2002 to more than \$5,600 in fiscal 2007.

Estimated annual increases in State aid under the Commission's proposal are shown in **Exhibit ES.2**. The exhibit reveals that annual Statewide increases begin at approximately \$274 million in fiscal 2003 and increase each year during the five-year implementation period to a high of \$446 million in fiscal 2007. In total, State aid would increase by an estimated 63 percent from fiscal 2002 to 2007, with increases for local school systems ranging from 31 percent to 90 percent. Five local school systems in which low wealth and high needs intersect (Allegany, Caroline, Prince George's, Somerset, and Wicomico counties) would receive increases of more than 70 percent.

Other Policy Recommendations Reflected in the Commission's Proposal

The Commission's proposal includes several policy recommendations that would facilitate the State's efforts to move towards a standards-based accountability approach, allow for a smooth transition as existing education programs terminate, and ensure that school systems continue to make strides towards providing an excellent education to all students. These recommendations are discussed briefly below.

Local Funding: The Commission recommends that local governments interpret the local maintenance of effort requirement as the minimum level of support for their schools. Achieving adequate funding will demand that counties continue to display the

level of commitment to public education that the majority of counties have repeatedly demonstrated in recent years. To assist jurisdictions whose charters include local tax rate or revenue restrictions, the Commission recommends that the State give local governments the authority to override these restrictions in order to increase funding for education.

Linking Education Funding and Accountability:

The Commission recommends that each local school system be required to develop a comprehensive master plan that outlines the steps that are being taken to improve student achievement in every segment of the student population. The master plans should link funding from federal, State, and local sources to strategies for student improvement. The plans should address, in a coordinated manner, how each school system plans to meet the needs of special education students, students with limited English proficiency, and students at risk of failing in school, as well as the general student population. The master plan should also address certain programmatic elements, including services for pre-kindergarten and kindergarten students, career technology students, and gifted and talented students.

Early Education: Although flexible funding for local school systems is a primary component of the Commission's proposal, the Commission feels very strongly that two programs, both supported by extensive research, should be mandatory by the time its funding recommendations are fully implemented. The first of these programs is full-day kindergarten, which the Commission recommends mandating for all students by the 2006-2007 school year. Consistent with this recommendation, the Commission's proposal increases State aid for kindergarten students incrementally during the five-year phase-in

period so that by fiscal 2007 each student is counted as 1.0 full-time equivalent (FTE) for the purpose of State aid calculations. Under current law, kindergarten students are counted as 0.5 FTE in all school systems except Garrett County. The second early education program supported by the Commission is pre-kindergarten. The Commission recommends that publicly funded pre-kindergarten programs be available to all economically disadvantaged four-year-old children by the beginning of the 2006-2007 school year.

Gifted and Talented Students:

The Commission recommends that each school system provide services for gifted and talented students and that the Maryland State Department of Education (MSDE) establish standards to measure the effectiveness of these services. It is anticipated that each school system will be able to meet these standards with the additional resources provided under the Commission's proposal. The Commission believes that funding to support gifted and talented students is present in the funding distributed under the proposed foundation program.

Locally Paid Retirement Costs:

Under current law, local school systems are required to reimburse the State for retirement costs associated with positions that are funded with State categorical aid. The Commission recommends that the State pay the retirement costs for all positions funded with State aid, including positions that are funded through a State categorical program. Local school systems would continue to pay retirement costs for positions funded with federal aid.

Enrollment Counts:

The Commission is concerned that the enrollment counts used to calculate State aid do not accurately reflect current enrollments. A second concern is that declining enrollments will have a negative

impact on funding once the Commission's proposal, which is heavily influenced by enrollment, is fully implemented. To mediate these concerns, the Commission recommends that MSDE form a workgroup to evaluate the issues relating to enrollment counts and submit recommendations prior to the development of the fiscal 2005 State budget.

Future Evaluations of the Commission's Proposal: The Commission recommends that the State conduct new adequacy studies in future years and evaluate the impact of the Commission's proposal on a continuing basis. The development of good public policy relies on continuous evaluation of existing and newly adopted policies.

School Facilities: The Commission's charge, as set forth in the legislation that created the Commission, did not include an evaluation of the State's needs in the area of school facilities. Consistent with the Commission's charge, the A&M adequacy study was designed to focus on the amount of funds necessary to support operating costs. However, in light of public feedback regarding problems associated with school facilities, the Commission recommends that a new commission be established to examine the adequacy and equity of the State's school construction and Aging Schools programs during the 2002 interim.

Programs That Terminate at the End of Fiscal 2003: Most of the State aid programs that are currently scheduled to sunset are addressed by the Commission's funding proposal. There are, however, several other programs that are scheduled to sunset at the end of fiscal 2003 but are not addressed in the funding proposal. The first of these is the Prince George's County Management Oversight Panel (MOP), which is monitoring the implementation of audit recommendations

for improving the county's public school system. The Commission recommends that the termination date for the MOP be extended until the audit recommendations have been fully implemented. The other programs that are subject to termination are the State/local school construction cost shares for the Baltimore City and Prince George's County school systems and the Aging Schools program. The Commission recommends that the termination dates for these programs be extended through fiscal 2004 so that the new commission that would be appointed to review school facilities can make recommendations regarding these programs.

Baltimore City-State Partnership: The Commission recommends the continuation of the Baltimore City/State partnership for the Baltimore City public school system, including the requirement that the State Board of Education submit a list of candidates for the New Baltimore City Board of School Commissioners from which the Governor and the Mayor appoint new members. Under current law, this provision is scheduled to terminate on June 30, 2002.

Exhibit ES.1 The Commission Recommendation

Current Expense

Adjusted successful schools foundation level phased-in
 50% State share for first \$4,124
 45% State share for growth in foundation level
 1.0 FTE for kindergarten students phased-in

Retirement

Separate State-paid program

Special Student Populations

Spec Ed: 1.17 overall weight
 50% State share of adjusted weight phased-in
 Wealth equalized
FRPM: 1.10 overall weight
 50% State share of adjusted weight phased-in
 Wealth equalized
LEP: 1.00 overall weight
 50% State share of adjusted weight phased-in
 Per pupil funding increases wealth equalized

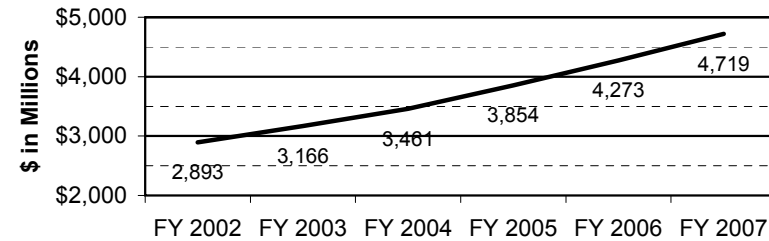
Additional Programs and Adjustments

Cost of education adjustment beginning in FY 2005
 80% guaranteed tax base phased-in

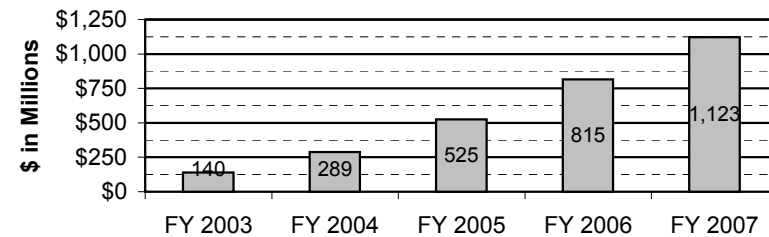
Transportation

\$1,000 per disabled rider phased-in
 Add-on for 1980-1995 enrollment increases in FY 2003

Estimated State Education Aid

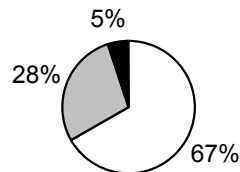


Estimated Increases Over Current Law



State Aid Targeting

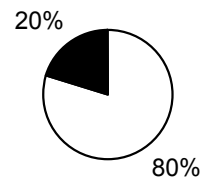
FY 2007 Estimate



□ General Ed □ Special Populations ■ Other

State Aid Wealth Equalization

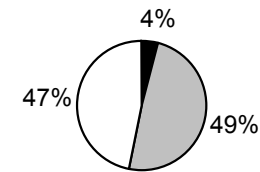
FY 2007 Estimate



□ Equalized ■ Not Equalized

Federal-State-Local Shares

FY 2007 Estimate



■ Federal □ State □ Local

Exhibit ES.2
The Commission Recommendation
Estimated Annual Increases in State Education Aid
FY 2003 to 2007
(\$ in Millions)

County	Funding FY 2002	Increase Over Prior Year Funding					Change FY02 to FY07	
		FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	Dollars	Percent
Allegany	\$48.1	\$5.2	\$5.9	\$7.3	\$8.4	\$8.9	\$35.7	74.1
Anne Arundel	202.5	10.4	13.6	20.3	19.9	18.6	82.7	40.8
Baltimore City	587.0	52.2	51.3	67.5	92.5	107.1	370.7	63.1
Baltimore	306.3	22.7	28.2	38.1	38.4	39.0	166.5	54.3
Calvert	48.9	5.3	5.2	6.0	4.9	4.3	25.6	52.4
Caroline	24.4	3.8	2.9	3.3	3.9	4.0	18.0	73.6
Carroll	88.7	7.6	8.1	9.4	9.6	9.1	43.8	49.3
Cecil	56.9	4.9	5.7	6.4	7.4	7.3	31.7	55.7
Charles	81.1	8.6	9.3	10.8	11.9	13.5	54.1	66.6
Dorchester	20.1	1.5	2.1	2.1	1.8	2.5	10.1	50.1
Frederick	113.7	11.6	12.3	15.6	15.9	16.7	72.1	63.5
Garrett	19.8	1.1	1.5	1.9	2.2	2.2	8.9	45.1
Harford	127.6	11.3	11.7	15.2	14.5	14.4	67.1	52.6
Howard	115.9	11.7	11.6	17.1	14.2	14.1	68.8	59.3
Kent	9.1	0.2	0.6	0.5	0.9	0.7	2.9	31.4
Montgomery	271.4	24.0	28.0	41.9	36.3	39.6	169.9	62.6
Prince George's	516.9	74.6	73.8	103.6	104.7	109.3	465.8	90.1
Queen Anne's	21.2	1.1	2.0	1.9	2.1	2.5	9.4	44.6
St. Mary's	52.1	3.0	4.3	4.6	5.8	4.6	22.3	42.9
Somerset	14.0	1.8	1.9	2.2	2.6	2.9	11.4	81.3
Talbot	7.2	1.0	0.2	0.4	0.4	0.9	2.9	40.8
Washington	69.9	5.7	6.4	8.0	8.8	9.0	38.0	54.4
Wicomico	54.1	6.1	6.7	7.8	10.0	12.6	43.2	79.9
Worcester	10.8	1.6	0.8	1.0	1.3	1.5	6.3	58.1
Unallocated	25.0	(3.5)	0.7	0.2	0.6	0.6	(1.5)	-6.0
Total	\$2,892.7	\$273.5	\$294.9	\$393.0	\$419.0	\$445.8	\$1,826.2	63.1
<i>Increase Over Current Law</i>		\$139.7	\$289.1	\$525.2	\$814.6	\$1,123.3		

Chapter 1. The Commission's Charge

The Commission on Education Finance, Equity, and Excellence was established in the fall of 1999 pursuant to legislation enacted during the 1999 session. (See **Appendix 1.**) The 27-member commission is charged with reviewing current education financing formulas and accountability measures and making recommendations: (1) for ensuring adequacy of funding for students in public schools; (2) for ensuring equity in funding for students in public schools; (3) for ensuring excellence in school systems and student performance; (4) that provide for a smooth transition when current educational funding initiatives sunset at the end of fiscal 2002; (5) regarding the issue of whether it is more effective to provide additional State aid in the form of targeted grants or by increasing funding through the base formula; and (6) for ensuring that local property tax policies do not affect the equitable allocation of funding for students in public schools.

The legislation that established the Commission required that a final report be submitted to the Governor and General Assembly by October 15, 2000. However, in the course of conducting its work during the 2000 interim, the Commission determined that many of the most significant issues relating to Maryland's school finance system could not be resolved properly until the Commission had thoroughly explored the issue of whether Maryland's schools are being adequately funded. After working with a private consulting firm throughout the 2000 interim to determine the best methodology for evaluating adequacy of funding for the State's public schools, the Commission determined that a two pronged study, using both the "successful schools" and "professional judgement" approaches, should be conducted in Maryland. The Commission sought and obtained permission from the Governor and Presiding Officers to submit interim findings and recommendations in December 2000 and to continue its work during the 2001 interim. The Commission also contracted with Augenblick & Myers, Inc. (A&M) to complete a two pronged adequacy study by the spring of 2001.

The Commission's Interim Report, which was issued in December 2000, included a number of recommendations regarding policy options that could have been implemented during the 2001 session. The recommendations were aimed at addressing specific needs that would have resulted in \$133.4 million in new education funding for fiscal 2002. The Interim Report also recommended that the termination provisions for 23 targeted funding streams for public education (totaling approximately \$250 million) be extended for one year, so that these programs would not sunset until the end of fiscal 2003. The Commission's interim recommendations were subsequently included in legislation that was introduced during the 2001 Session. (See **Appendix 2.**) The final version of the bill that was passed by the General Assembly extended the sunsets for the 23 targeted funding streams and mandated that funding for other existing programs (totaling approximately \$90 million) continue in fiscal 2003. However, the bill did not include the new funding recommended by the Commission. (See **Appendix 3.**) The bill also extended the statutory deadline for submission of the Commission's final report.

Chapter 2. Summary of the Commission's Work in 2001

2.1 Introduction

After submitting its Interim Report to the Governor and General Assembly in December 2000, the Commission continued to work diligently to implement its broad statutory charge. The Commission met on January 24, 2001, to review the final list of schools that were selected to be included in the Successful Schools Study and the final list of panelists who had been selected to participate in the Professional Judgement Study.¹ Throughout the winter and spring of 2001, the Commission reviewed written progress reports from Augenblick & Myers, Inc. (A&M) regarding both of these studies. On June 7, 2001, A&M presented the preliminary results of its adequacy studies to the Commission. On that same date, the Commission received a briefing on the results of an adequacy study that had been conducted by Management Analysis and Planning, Inc. (MAP) on behalf of the New Maryland Education Coalition.

The Commission spent considerable time during July and August 2001 reviewing the data and assumptions that were reflected in the preliminary results submitted by A&M. After receiving feedback from the Commission regarding the accuracy of some of these data and assumptions, A&M made a few minor adjustments to its preliminary results and submitted a final report to the Commission in September 2001. The Commission worked hard throughout the summer and early fall to understand the similarities and differences between the A&M and MAP adequacy studies, to analyze the differences between current spending and total funding recommended by the adequacy studies, and to determine how to use the results of the adequacy studies to enhance Maryland's school finance system. The Commission spent a significant amount of time evaluating numerous approaches to enhancing the State's school finance system.

In total, the Commission held eight work sessions and five regional public hearings before issuing a draft of its findings and recommendations to the public. The five regional hearings were held on September 10, 2001, for the purpose of obtaining recommendations from the public regarding ways in which the State's current school finance system should be changed. In order to focus the public hearings on salient issues, the Commission developed a list of questions to be addressed by all speakers at the hearings. (See **Appendix 9.**) Testimony at the hearings was informed and extensive and included the opinions of elected officials, organizational representatives, and individual citizens. The Commission received valuable input on many issues. (See **Appendix 10.**)

¹The Successful Schools and Professional Judgement adequacy studies are discussed in Section 2.2 of this report.

By October 2001, the Commission had determined that there was a gap between current education funding and adequate education funding as measured by A&M and MAP. However, the Commission had also concluded that additional work needed to be done to determine how to use the results of the A&M and MAP adequacy studies to enhance Maryland's school finance system. In order to ensure that the existence of the adequacy gap was considered by the Governor as he developed his proposed State budget for fiscal 2003, Dr. Alvin Thornton sent a letter on behalf of the Commission to the Governor and Presiding Officers on October 18, 2001. (See **Appendix 12.**) That letter stated that the results of both the A&M and MAP studies indicated that there was a significant gap between current funding and adequate funding necessary to allow all schools and school districts to meet the State's performance standards. The letter noted that the Commission had not yet determined the exact size of the gap but that, based on the A&M and MAP adequacy studies, it ranged from a low of approximately \$377 million to a high of approximately \$2.7 billion. The Commission urged the Governor to begin to address this gap by including a substantial increase in education funding in the fiscal 2003 State budget. Specifically, the letter urged the Governor to set aside funds that would allow the State to begin to phase in changes to its school finance system in a manner that is consistent with the Commission's final recommendations.

The Commission issued the first draft of its final report on November 9, 2001. (See **Appendix 14.**) The draft report outlined the Commission's recommendations for enhancing Maryland's school finance system and provided a brief summary of the guiding principles reflected in the Commission's recommendations. The draft report also identified several sources of revenues that could be used to enhance the level of State funding for education and asked members of the public to consider and comment on these proposals. The Commission held a public hearing on November 19, 2001, to receive input from the public on its proposed recommendations. The vast majority of speakers who testified at the hearing expressed support for the Commission's recommendations. However, a number of individuals and organizations expressed objections to the proposal and raised issues for the Commission's consideration. (See **Appendix 15.**) A number of individuals also identified potential sources of revenue for additional education funding.

The Commission held three additional work sessions after issuing its draft report for the purpose of reviewing the work being done by other commissions, task forces, and researchers; reviewing testimony received at the November 19 hearing; and discussing a number of outstanding issues relating to the Commission's proposal. At these work sessions, the Commission adopted a number of additional recommendations relating to local funding issues, accountability, restrictions on State funding, locally paid retirement costs, enrollment counts, school facilities, programs that terminate at the end of fiscal 2003, and future evaluations of the adequacy of the Commission's proposal. These recommendations are discussed in more detail in Sections 3.4 through 3.12 of this report. The Commission also adopted a proposal to increase transportation funding for non-disabled students. This proposal is discussed in more detail in Section 3.2 of this report.

2.2 Adequacy

(A) The Meaning of Adequacy

The Commission has been charged with “ensuring adequacy of funding for students in public schools.” In order to accomplish this goal, the Commission first considered the following question: What does the term “adequacy” mean in the context of funding for public schools? According to A&M, “[w]hen most policy makers say that they want to study education ‘adequacy’ what they mean is that they want to set the parameters in a state aid formula so that school districts (or schools) are assured that they will have enough money -- where enough money means a sufficient amount to provide a specific set of ‘inputs’ to accomplish a particular set of ‘outcomes.’”² Based on this definition, the issue of whether Maryland’s public schools are being adequately funded depends in large part on the educational outcomes that are desired by the State.

The current performance standards for Maryland’s public schools are reflected in the Maryland School Performance Index (MSPI). The MSPI rates the performance of all schools based on a number of factors. The performance standards for elementary and middle schools are: (1) an attendance rate of at least 94 percent; and (2) a satisfactory score for 70 percent of students in all six content areas of the Maryland School Performance Assessment Program (MSPAP) tests (reading, writing, language, math, science, and social studies). The performance standards for high schools are: (1) an attendance rate of at least 95 percent; (2) a drop out rate below 3.75 percent; and (3) passing rates on the grade 9 functional tests of at least 99 percent for reading, 89 percent for math, and 96 percent for writing. An MSPI score of 100 indicates that, on average, a school is meeting the State’s performance standards.

Article VIII, §1 of the Maryland Constitution requires the General Assembly to establish “a thorough and efficient System of Free Public Schools” and to “provide by taxation, or otherwise, for their maintenance.” This “education clause” clearly places responsibility for establishing a public school system with the State government and gives priority status to public education, which is the only public service specifically mandated by the Maryland Constitution. However, the meaning of the constitutional mandate to provide a “thorough and efficient” public school system and its relationship to the concept of adequacy of education funding is somewhat unclear. For example, it is unclear whether the State is obligated to provide funding necessary to allow schools to meet the performance standards reflected in the MSPI or, alternatively, other performance standards that are either more or less rigorous.

In *Hornbeck v. Somerset County Board of Education*, 295 Md. 597, 632 (1983), the Maryland Court of Appeals held that the education clause requires the General

²See Document 1 (page 1) in the Technical Supplement to this report.

Assembly to “establish such a system, effective in all school districts, as will provide the State’s youths with a basic public school education.” In the context of the Commission’s work, this holding simply gives rise to the question of whether a “basic public school education” is one that meets the performance standards reflected in the MSPI or other performance standards that are either more or less rigorous. Needless to say, it is difficult to predict how the Court of Appeals would answer this question. This task is complicated by the fact that courts in other states have interpreted similar constitutional language in different ways.³

Given the absence of clear guidance as to the meaning of the term “thorough and efficient” in the context of adequate funding, the Commission decided, with a couple of caveats, that it is reasonable to use the outcomes for the State’s public schools that are articulated in the MSPI for the purpose of evaluating whether the State’s public schools are adequately funded because these are the standards against which the State is measuring the performance of schools and school systems. The caveats regarding use of the MSPI for the purpose of evaluating adequacy relate to the performance standards for high schools. The performance standards for elementary and middle schools are based on MSPAP tests, which are widely acknowledged to be very rigorous in comparison to performance standards used in other states. In contrast, the performance standards for the high schools are based on less rigorous Functional Tests. Because the State will soon be adopting more rigorous high school assessments, the Commission made a couple of modifications to the high school performance standards reflected in the MSPI to make them more rigorous. These more stringent standards for high schools and the MSPI standards for elementary and middle schools were assumed to be the State’s performance standards for the purpose of evaluating and measuring adequacy needs.

(B) Measuring Adequacy

A&M advised the Commission that most states currently establish the amount of State aid for education by using the “political approach.” Under this approach, the amount of funding reflects available revenue or some kind of automatic adjustment to a prior year’s funding (which at some point was established based on available revenues). However, A&M also advised the Commission that policy makers around the country are seeking more “rational” ways to determine school funding levels. Factors contributing to this trend include: (1) a growing desire to determine whether sufficient resources are available to accomplish the objectives for which students, teachers, schools, and school districts are being held accountable; and (2) a developing body of case law that focuses on the obligation of states under their own constitutions to provide funding that is sufficient to provide an adequate education.

³For a discussion of some of these cases, see Document 30 of the Technical Supplement to this report.

In recent years, new approaches have been developed to create a logical, if not scientific, link between the level of funding for public education and a state's educational objectives. Some of these approaches have been pursued in other states and some of them are theoretical. According to A&M, none of the alternatives has emerged as the best way to resolve the issue and each has strengths and weaknesses that makes it more or less appropriate for use in a particular state. All of the methods work under the theory that adequacy has two components: (1) a base cost per pupil common to all districts (the parameter that could be used to establish the per student aid amount that is distributed under Maryland's foundation program); and (2) a series of adjustments to the base cost to reflect the cost pressures associated with different pupils, different programs, or different characteristics of school districts.

A&M advised the Commission that the following three approaches to developing a base cost figure have received the most attention: (1) the professional judgement approach (used in Wyoming and being discussed in Oregon, South Carolina, and Wisconsin); (2) the successful school district approach (used in Mississippi, New Hampshire, and Ohio); and (3) the complex statistical approach (not used in any state). The professional judgement approach typically uses multiple panels of educators to determine the kinds of resources needed to achieve a particular set of objectives in prototypical elementary, middle, and high schools. The resources identified by these panels are then "priced out" based on salary levels and other factors to determine the per pupil base cost. The successful school district approach examines the basic spending of those districts that meet performance objectives established by the state, where basic spending excludes transportation, special education, compensatory education, or other spending associated with the kinds of adjustments that will be made to the base cost figure. The complex statistical approach typically uses multi-stage, multiple regression to infer a base cost figure (and a series of adjustments) and is analyzed in terms of statistical significance, r-square, beta weights, and other statistical tools.

On November 7, 2000, the Commission approved a task order that required A&M to determine a base cost per student amount that could be used to establish the per student aid amount that is funded under Maryland's foundation formula and to provide assistance in developing weights to reflect the additional costs of serving students with special needs -- i.e., students from economically disadvantaged backgrounds, special education students, and students with limited English proficiency.⁴ The task order called for A&M to undertake a two pronged approach to determining a base cost per student amount that involved both the professional judgement approach and an analysis of successful schools. A&M submitted preliminary results of these studies to the Commission on June 7, 2001. The Commission also received the results of an adequacy study conducted by MAP on behalf of the New Maryland Education Coalition on that date. A&M's final report was submitted to the Commission in September 2001.

⁴See Appendix 6 in the Commission's Interim Report (December 2000).

The Methodology Reflected in the Adequacy Studies Conducted by Augenblick & Myers⁵

The Professional Judgement Study

Augenblick & Myers invited 56 Maryland education practitioners and experts to be panelists in the Professional Judgement Study. Each panelist was placed on one of seven eight-member panels -- two elementary school panels, two middle school panels, two high school panels, and one "overview panel." Panelists were given a detailed description of State performance standards, including the enhanced high school standards comprised of the existing high school standards plus the requirement that at least 85 percent of graduating students meet the University of Maryland course requirements, the Career and Technology Education Program requirements, or the rigorous high school program indicators. Panelists were then asked to define a set of programs, services, and resources for a hypothetical school that would allow the students in the school to meet these performance standards. Panelists were instructed to assume that the prototype schools they were designing enrolled student populations with average statewide characteristics -- i.e., 31 percent eligible for free and reduced price meals, 13.5 percent special education eligible, and 2 percent with limited English proficiency.

Panelists were also told to assume that school personnel were competent and school facilities were sufficient to accommodate any programs they designed. The panels defined the resources and programs for the prototype schools but did not discuss the costs associated with the resources.

Each of the six school-level panels, or "prototype panels," met with staff from A&M for one day in February 2001 to design an initial prototype school. When identifying programs and resources needed to reach State standards, panelists were asked to distinguish between the resources that were needed by all students and the resources that were targeted for special needs students. The overview panel met in April 2001 and spent one and one-half days reviewing, reconciling, and finalizing the resource lists developed by the prototype panels. The overview panel also identified districtwide personnel and services necessary to support the prototype schools.

In the final stage of the study, A&M attached costs to the services and resources identified by the panels. To derive a base cost needed to adequately educate a student with no special needs, A&M, based on the work of the panels, separated out the resources that were associated with the provision of services to special needs students and calculated a per pupil cost for the remaining resources. The cost of resources

⁵This report provides a very brief summary of the methodology used by A&M in its adequacy studies. For a more detailed explanation of the methodology used for the Professional Judgement and Successful Schools studies conducted by A&M, see Document 24 of the Technical Supplement to this report ("Calculation of the Cost of an Adequate Education in Maryland in 1999-2000 Using Two Different Analytic Approaches (September 2001)").

designated for students with special needs were also summed to calculate the additional costs associated with ensuring that special education and economically disadvantaged students meet State standards.

It is important to note that the purpose of the Professional Judgement Study was to develop an estimate of the total cost of achieving the State's performance standards. The study was not designed to determine specific resources (i.e., inputs) that should be used in particular school systems to achieve these standards. Therefore, the specific resources that were identified by the professional judgement panels should not be viewed as prescriptive, in the sense that local school systems should be compelled to choose the same array of services identified by the panels. This view is consistent with the roles of the State and local governments in standards-based education systems. These roles are discussed in more detail in Section 2.4 of this report.

The Successful Schools Study

To conduct its Successful Schools Study, A&M asked the Maryland State Department of Education (MSDE) to identify a set of elementary and middle schools generally meeting the existing State performance standards as defined by a MSPI score of 100 or better. To reflect the more rigorous high school standards that will be implemented in the near future, A&M asked MSDE to use a MSPI score of 104 or better for high schools. MSDE initially identified 104 schools that met this criteria. The list was reduced to 59 schools -- 33 elementary, 10 middle, and 16 high -- to enable A&M to collect the necessary data within the Commission's time frame. The 59 schools selected for participation in the study represented 10 of Maryland's 24 school districts. On average, the schools enrolled proportions of special needs students well below the State average, but some of the selected schools had above-average proportions of special needs students.

Because school spending data with the necessary detail are not routinely available in Maryland, A&M then prepared a data collection "template" to gather detailed data from each of the selected schools. The templates were sent to business officers in the ten school systems participating in the study, and the officers returned the completed templates to A&M during the winter and spring of 2001. To the extent possible, the templates gathered school-specific spending data, such as school-based administrative and instructional salaries and school spending for supplies and materials. Total school spending was divided by the number of students in the school to calculate per pupil school costs. District spending was collected in a similar manner and was divided by the number of students in the district in order to compute per pupil district costs. In gathering the data, business officers were asked to identify spending specifically targeted for special needs students so this spending could be excluded in the calculation of a base cost figure for students without special needs. School and district per pupil spending was summed to arrive at base per pupil spending levels in the selected schools. Augenblick

& Myers adjusted the per pupil spending levels for local differences in education costs⁶ and averaged the per pupil costs across the 59 schools to arrive at an average per pupil base funding level. The study was not designed to collect spending data associated with resources that support special needs pupils.

In a second phase of data gathering, A&M sent a survey to each of the schools participating in the study, requesting information on additional resources available to the school (such as contributions of money, supplies, or volunteer time) and the types of programs (such as after-school academic programs and summer school) available to students in the schools. All but four of the schools completed the surveys and returned them to A&M.⁷

The Results of the Adequacy Studies Conducted by Augenblick & Myers

Base Per Pupil Cost

Both of the A&M studies produced a base per pupil cost -- i.e., a data-driven estimate of what it costs to adequately educate a student who has no special needs. The Professional Judgement Study estimated this cost by pricing a set of inputs that experts believe would enable a school system to achieve desired educational outputs. The Successful Schools Study, conversely, was driven by educational outputs, using schools that are generally meeting State standards and measuring actual per pupil spending in the schools. The adequate base funding level identified by the Professional Judgement Study is \$6,612, based on an average of all school levels (\$6,726 in elementary schools, \$6,160 in middle schools, and \$6,791 in high schools). The Successful Schools Study estimated an adequate base cost of \$5,969, based on an average of all school levels (\$6,161 in elementary schools, \$5,655 in middle schools, and \$5,910 in high schools). The A&M report states that these base cost figures “should be viewed as reasonable estimates rather than precise calculations” and estimates that the figures are “within plus or minus 10 percent of being correct.”⁸

A comparison of the base personnel present in the schools selected for the Successful Schools Study and the base personnel identified in the Professional Judgement Study is shown in **Exhibit 1**. The exhibit reveals a substantial amount of agreement between the base staffing levels. When all school levels are considered, the Professional Judgement Study identified a need for approximately 75 school staff per

⁶See further discussion of regional adjustments to the cost of education later in this section.

⁷The survey data are not discussed further in this report. Document 24 of the Technical Supplement includes a complete discussion of the survey results and data.

⁸See Document 24 (page 11) of the Technical Supplement.

1,000 students, and the schools used in the Successful Schools Study have approximately 72 school staff per 1,000 students. The successful schools, however, have more instructional staff than the staff requirements reflected in the Professional Judgement Study. This is particularly evident at the middle school level where the successful schools have an average of 64.3 instructional staff per 1,000 students, and the Professional Judgement Study reflects 50.5 instructional staff per 1,000 students.

Differences in staffing costs, however, do not appear to account for the different base costs calculated for the two studies. Although it is difficult to fully explain the \$643 difference, the majority of the additional costs associated with the professional judgement base level can be attributed to three factors. First, the professional judgement panels recommended an additional ten days of professional development for all teachers. The estimated cost for this addition is \$200 per pupil. Second, the professional judgement panels recommended \$30 per pupil for student activities in elementary and middle schools and \$300 per pupil for student activities in high school. These costs, a portion of which are currently paid with student activities fees and school fund raisers, are not captured in their entirety by the successful schools analysis. Third, the professional judgement panels recommended per pupil equipment and technology costs of \$210 in elementary schools, \$212 in middle schools, and \$287 in high schools. The Successful Schools Study did not find the same level of spending for these items among the 59 schools in the study.

Pupil Weights for Students with Special Needs

As mentioned previously, the Successful Schools Study was not designed to capture the added costs associated with special needs students. In fact, resources present in the schools and targeted to special needs students were intentionally excluded from the analysis. The professional judgement panels, however, were asked to design prototype schools for student populations that included specified proportions of special education students and students at risk of failing. The prototype designs, therefore, include programs and resources targeted to these students. As discussed above, the base cost calculated for students with no special needs is \$6,612. However, the full per pupil cost of the prototypes when services for special needs students are included was calculated to be \$10,631, based on the average cost of all school levels (\$12,060 for elementary school, \$9,004 for middle schools, and \$9,599 for high schools). The costs above the base level represent additional costs needed to support resources targeted to students with

Exhibit 1
A&M Adequacy Studies
Comparison of Resources in Professional Judgement and Successful Schools Approaches

Resource	All School Levels		Elementary		Middle		High	
	PJ Base	SS Avg Base	PJ Base	SS Avg Base	PJ Base	SS Avg Base	PJ Base	SS Avg Base
<u>Estimated Staff Per 1,000 Students</u> ¹		(N=59)		(N=33)		(N=10)		(N=16)
Instructional Staff ²								
Teachers	54.6	54.9	62.0	56.4	45.5	56.1	50.0	53.2
Teacher Assistants/Aides	1.9	3.7	4.0	5.9	-	1.5	-	3.1
Library/Media Staff	1.8	1.9	2.0	2.6	1.3	1.6	2.0	1.5
Guidance Counselors	2.0	2.7	-	2.0	3.8	2.9	4.0	3.1
Psychological / Therapists	-	0.4	-	0.1	-	1.2	-	0.1
Other Instructional Staff ³	-	0.9	-	1.2	-	0.9	-	0.7
Total Instructional Staff	60.4	64.4	68.0	68.2	50.5	64.3	56.0	61.7
Non-Instructional Staff ²								
Principals and Assistant Principals	3.0	3.0	2.0	3.2	3.8	2.9	4.0	2.9
Business Manager	0.3	0.2	-	-	-	-	1.0	0.4
Secretaries & Clerical	6.7	4.0	8.0	4.0	6.3	3.8	5.0	4.1
All Other Administrative Staff ⁴	4.6	0.6	6.0	-	5.0	1.3	2.0	0.7
Total Non-Instructional Staff	14.6	7.7	16.0	7.1	15.0	8.0	12.0	8.0
Total Estimated Staffing Resources ²	75.0	72.1	84.0	75.4	65.5	72.3	68.0	69.7
Base Cost Calculated by the Study	\$6,612	\$5,969	\$6,726	\$6,161	\$6,160	\$5,655	\$6,791	\$5,910

¹ Excluding pre-kindergarten students.

² Excluding personnel working with special education, at risk, and LEP students.

³ Includes lunch time assistants in SS.

⁴ Includes social workers, health personnel, technology specialists, parent liaisons, and juvenile services workers in PJ.

Numbers may not sum to total due to rounding.

special needs. Based on input from the panels, A&M calculated that, to achieve State standards, a school system would need an additional \$7,748 above the base cost for each special education student, or 1.17 times the base per pupil cost figure of \$6,612. Likewise, systems would need an additional \$9,165 for each student eligible for free and reduced price meals, 1.39 times the base cost figure identified by the Professional Judgement Study. Specific programs and resources for limited English proficient (LEP) students were not identified by professional judgement panelists, but A&M assumed a 1.0 weight for this population, which means that school systems would need an additional \$6,612 per LEP student to reach State standards.

Augenblick & Myers noted in its report that the “supplemental pupil weights estimated for special education ... and [assumed] for LEP pupils ... are reasonable; however the supplemental pupil weight for pupils from low-income families is extraordinarily high.”⁹ On August 23, 2001, A&M presented a report to the Commission on approaches that other states use to fund educational programs for students with special needs.¹⁰ The report indicates that the 1.39 weight calculated for students from low-income backgrounds -- especially when tied to a relatively high foundation level -- is higher than the weight used for this population in any other state (except Texas, which uses a 1.41 weight for pregnant teens). However, A&M also reported that no state has tied funding for special needs students to data-driven estimates of the cost of adequately educating these students. Furthermore, there is no available data indicating that the funding levels for economically disadvantaged students in other states are working to substantially improve the performance of low-income students.

The weights constitute a significant portion of the adequacy measurement, as is apparent by the increase of more than \$4,000 in the statewide per pupil cost of adequacy once special needs pupil weights are added to the professional judgement base per pupil cost of \$6,612. The underlying assumption with pupil weights is that some populations of students generally require more resources to meet the educational standards set by the State. Using weights for special needs students links adequacy for these students to the base cost figure.

A substantial portion of the additional costs associated with special needs populations translates into additional personnel that panelists recommended to ensure that all student populations are able to achieve State standards. **Exhibit 2A**, **Exhibit 2B**, and **Exhibit 2C** compare the base elementary, middle, and high school staff identified by A&M based on the professional judgement panels with the additional personnel associated with providing services to special education students and students at risk of failing. The exhibits show that a substantial percentage of the personnel identified by the

⁹See Document 24 (page 3) of the Technical Supplement to this report.

¹⁰See Document 18 of the Technical Supplement to this report.

Exhibit 2A
A&M Professional Judgement Approach
Comparison of Resources Recommended for Base and Special Students
Elementary School Prototype (including preschool resources)

<u>Estimated Staff Per 1,000 Students</u> ¹	Professional Judgement Elementary Prototype			
	<u>Full Prototype</u>	<u>Special Ed</u>	<u>At Risk</u>	<u>Base</u>
Instructional Staff ²				
Teachers	93.00	9.00	22.00	62.00
Teacher Aides	46.00	12.00	30.00	4.00
Other Special Education Staff	2.00	2.00	-	-
Librarians/ Media Spec	2.00	-	-	2.00
Library/Media Aides	2.00	-	2.00	-
Guidance Counselors	4.00	-	4.00	-
Psychological / Therapists	4.00	2.00	2.00	-
Total Instructional Staff	153.00	25.00	60.00	68.00
Non-Instructional Staff				
Principals, VP,& Other Adm	4.00	-	2.00	2.00
Pupil Personnel & Social Wkrs	-	-	-	-
Sch. Nurses & Other Health	4.00	-	2.00	2.00
Technology Specialists / Facil.	4.00	-	-	4.00
Parent Liaison	2.00	-	2.00	-
Juvenile Services	-	-	-	-
Business Manager	-	-	-	-
Secretaries & Clerical	8.00	-	-	8.00
Total Non-Instructional Staff	22.00	-	6.00	16.00
Total Estimated Staffing Resources	175.00	25.00	66.00	84.00

¹ Not including an estimated 25 pre-kindergarten students per 500 elementary students.

² Excluding substitutes.

Numbers may not sum to total due to rounding.

Exhibit 2B
A&M Professional Judgement Approach
Comparison of Resources Recommended for Base and Special Students
Middle School Prototype

<u>Estimated Staff Per 1,000 Students</u>	<u>Professional Judgement Middle School Prototype</u>			
	<u>Full Prototype</u>	<u>Special Ed</u>	<u>At Risk</u>	<u>Base</u>
Instructional Staff ¹				
Teachers	63.75	12.00	6.25	45.50
Teacher Aides	20.00	7.50	12.50	-
Other Special Education Staff	1.25	1.25	-	-
Librarians/ Media Spec	2.50	-	1.25	1.25
Library/Media Aides	-	-	-	-
Guidance Counselors	5.00	-	1.25	3.75
Psychological / Therapists	1.25	0.63	0.63	-
Total Instructional Staff	93.75	21.38	21.88	50.50
Non-Instructional Staff				
Principals, VP,& Other Adm	5.00	-	1.25	3.75
Pupil Personnel & Social Wkrs	1.25	-	1.25	-
Sch. Nurses & Other Health	2.50	-	1.25	1.25
Technology Specialists / Facil.	3.75	-	-	3.75
Parent Liaison	1.25	-	1.25	-
Juvenile Services	1.25	-	1.25	-
Business Manager	-	-	-	-
Secretaries & Clerical	7.50	-	1.25	6.25
Total Non-Instructional Staff	22.50	-	7.50	15.00
Total Estimated Staffing Resources	116.25	21.38	29.38	65.50

¹ Excluding substitutes.

Numbers may not sum to total due to rounding.

Exhibit 2C
A&M Professional Judgement Approach
Comparison of Resources Recommended for Base and Special Students
High School Prototype

<u>Estimated Staff Per 1,000 Students</u>	<u>Professional Judgement High School Prototype</u>			
	<u>Full Prototype</u>	<u>Special Ed</u>	<u>At Risk</u>	<u>Base</u>
Instructional Staff ¹				
Teachers	76.00	7.00	19.00	50.00
Teacher Aides	11.00	7.00	4.00	-
Other Special Education Staff	1.00	1.00	-	-
Librarians/ Media Spec	2.00	-	-	2.00
Library/Media Aides	-	-	-	-
Guidance Counselors	5.00	-	1.00	4.00
Psychological / Therapists	1.00	0.50	0.50	-
Total Instructional Staff	96.00	15.50	24.50	56.00
Non-Instructional Staff ²				
Principals, VP, & Other Adm	5.00	-	1.00	4.00
Pupil Personnel & Social Wkrs	1.00	-	1.00	-
Sch. Nurses & Other Health	2.00	-	1.00	1.00
Technology Specialists / Facil.	1.00	-	-	1.00
Parent Liaison	-	-	-	-
Juvenile Services	-	-	-	-
Business Manager	1.00	-	-	1.00
Secretaries & Clerical	6.00	-	1.00	5.00
Total Non-Instructional Staff	16.00	-	4.00	12.00
Total Estimated Staffing Resources	112.00	15.50	28.50	68.00

¹ Excluding substitutes.

² Excluding technicians.

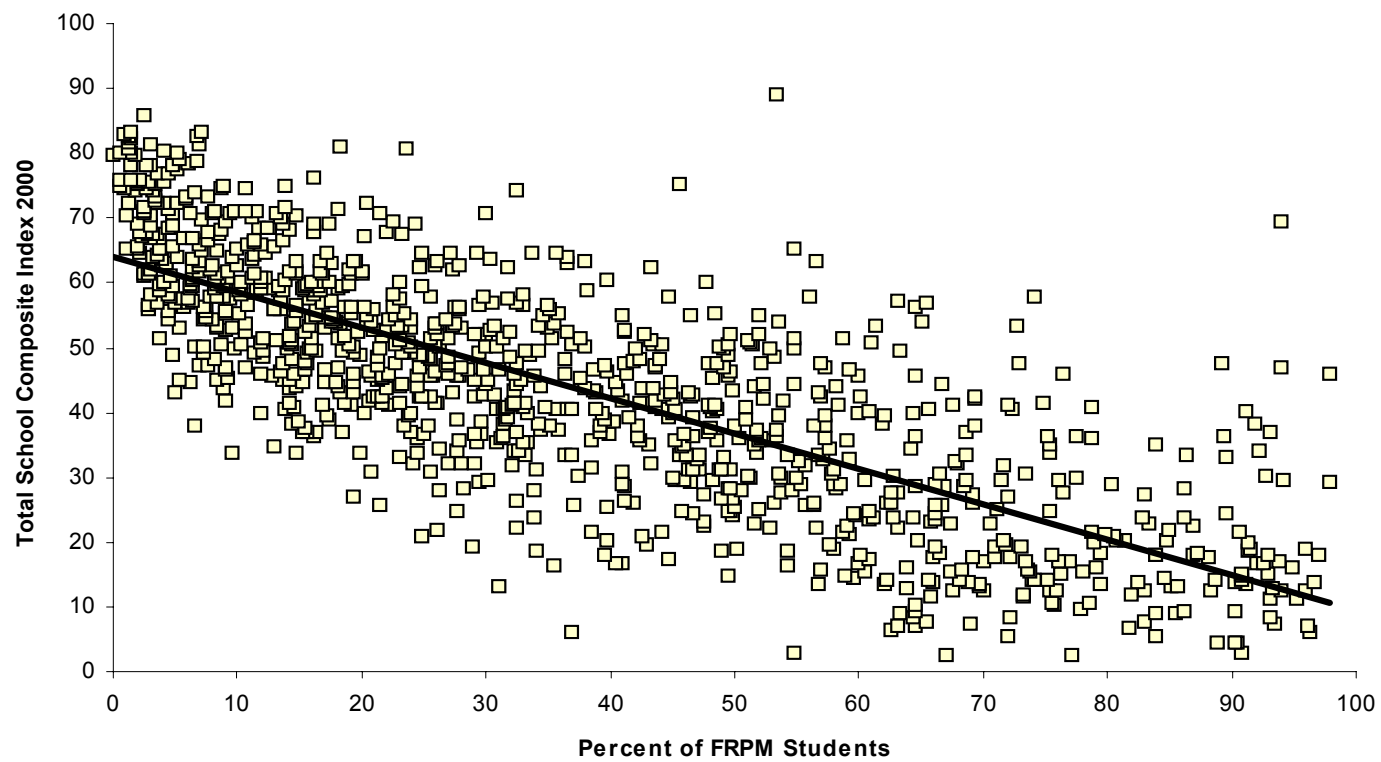
Numbers may not sum to total due to rounding.

panels, particularly at the elementary school level, is due to the existence of special needs students in the hypothetical schools. The panels also recommended special programs for students with special needs, including pre-kindergarten for students from economically disadvantaged backgrounds and extended day and year programs for at-risk elementary and middle school students. In addition, the overview panel estimated district funding of \$200 per pupil for an alternative school and \$29 per pupil for central district special education personnel.

The need for additional funding for special education and LEP students can be tied directly to particular students. These students are diagnosed with specific needs and therefore require varying levels of additional services and resources to achieve at the same levels as students without special needs. The needs of economically disadvantaged students are not as straight-forward. Students from low-income backgrounds, as measured by eligibility for free and reduced price meals, constitute a proxy for students who are at risk of failing to meet performance standards. However, many economically disadvantaged students perform very well in school and require no additional services. Conversely, many students from more advantaged backgrounds need additional help to be successful in school. The proportion of students eligible for free and reduced price meals, however, is a strong and consistent indicator of the success of a school or a school system. **Exhibit 3** is a scatterplot of schools that charts the percentage of students eligible for free and reduced price meals by the MSPAP composite index for each elementary and middle school in the State. The graph displays very clearly the relationship between the two variables and provides a compelling argument for higher adequacy targets in school systems with large proportions of economically disadvantaged students.

Further analysis of pupil weights for special needs students uncovered substantial overlap between populations of special needs students. Applying two or three weights to a single student who has multiple needs overestimates the cost of adequacy for a school system. The overlap analysis revealed that 21 percent of the students eligible for free and reduced price meals were also present in at least one other special needs category. Although eligibility for free and reduced meals is a very good indicator of additional need, it is only a proxy for students at risk of failing to meet standards. In contrast, special education and LEP designations constitute formally diagnosed needs requiring specific identifiable services. Furthermore, A&M indicated a concern about the high weight associated with economically disadvantaged students. Based on these arguments, the Commission reduced the weight used for economically disadvantaged students by 21 percent. In effect, this has the same impact on the calculation of an adequacy target as applying a full pupil weight to 79 percent of economically disadvantaged students who have no special education or LEP needs. Applying this reduction to the 1.39 weight for economically disadvantaged students identified in the Professional Judgement Study results in a weight of 1.10.

Exhibit 3
2000 MSPAP Composite Index Performance by Eligibility for Free and
Reduced Price Meals
For Elementary and Middle Schools



Source: Maryland State Department of Education, November 2001

The Adequacy Study Conducted by Management Analysis & Planning, Inc.

At about the same time that A&M began its analysis of adequacy in Maryland, the New Maryland Education Coalition contracted to have Management Analysis & Planning, Inc. (MAP) conduct a separate Professional Judgement Study. The Professional Judgement Study conducted by MAP used a methodology that was very similar to the methodology used in the Professional Judgement Study conducted by A&M. Like the A&M study, the MAP study used panels of education experts and asked them to estimate the resources needed in prototypical Maryland elementary, middle, and high schools to ensure that the schools meet State performance standards. The MAP study used that same performance standards used by A&M, which were explained in detail to the MAP panels. Both studies instructed panelists to assume that the schools they were designing enrolled student populations representative of Maryland's statewide averages. The MAP Professional Judgement Study, similar to the A&M study, asked panelists to assume that salaries were adequate to attract and retain competent staff and that facilities could accommodate the programs and resources identified by panelists.

There are also several important differences in the methodology employed by MAP and A&M. First, MAP used three panels consisting of a total of 22 experts. Each panel worked over three days to develop programs and resources for all three school levels. Unlike the A&M study, no overview panel attempted to reconcile the work of the panels to create a single prototype for each school level. In addition, the MAP study assumed that current districtwide spending is sufficient, while the A&M study used the overview panel to examine district costs and allowed the overview panelists to identify additional district resources and programs required for adequacy. Finally, MAP panelists were asked to assume that existing school technology was sufficient. Panelists in the A&M Professional Judgement Study recommended an array of technology equipment that would be needed to adequately educate students.

The main differences between the studies, however, relate to the manner in which they reported results. The MAP study did not separate the costs of programs and resources designated for all students from the costs of programs and resources designated for special needs students. Total per pupil costs were given for the MAP prototype designs, but no attempt was made to identify a base cost or the specific costs associated with categories of special needs students. Also, the recommendations of the three MAP panels were not merged, so three separate estimates of total per pupil adequacy costs -- \$7,461, \$9,215, and \$9,313 -- were reported. After the MAP panelists identified a set of services and resources needed for the a hypothetical "average" school, they were asked to identify additional resources that would be needed if 68 percent of the students in the school (instead of 31 percent) were eligible for free and reduced price meals. Two of the teams identified additional resources costing approximately \$285 per pupil, and the third team did not add any additional resources. This analysis did not necessarily provide additional insight into the total level of funding needed to support economically

disadvantaged students, but it did reinforce the idea that additional funding may be needed in school systems with high proportions of low-income students.

While there are some methodological differences in the ways that per pupil costs were calculated and reported in the MAP and A&M professional judgement studies, the MAP per pupil costs of \$7,461, \$9,215, and \$9,313 can most reasonably be compared to the A&M professional judgement per pupil cost of \$10,631, which is a statewide per pupil cost estimate that includes the cost of services for special needs students. However, due to significant differences in the methodology and assumptions used by the studies, these cost estimates should not be viewed as exact parallels. Rather, they should be viewed as establishing a range of reasonable estimates of the amount of funds that are needed to allow all schools to meet the State's performance standards.

Although the methods used by A&M and MAP for reporting costs associated with panel recommendations were very different, there were two major similarities in the resources identified by A&M and MAP panelists. First, panelists in both studies emphasized early childhood programs. The A&M panels and all three MAP panels recommended that full-day kindergarten be implemented for all students. All of the MAP teams also recommended pre-kindergarten for all four-year-old children, and the A&M panels recommended that pre-kindergarten be available to economically disadvantaged four-year-old children. One of the MAP teams also recommended full-day pre-kindergarten for economically disadvantaged three-year-old children. Extended year programs for economically disadvantaged elementary students were recommended by panelists in the A&M study and by two of the three MAP panels. The second major similarity was professional development. The A&M panelists and all of the MAP teams recommended additional professional development opportunities for all teachers.

Cost of Education Adjustments

A cost of education adjustment that estimates jurisdictional differences in education costs is sometimes used to evaluate adequacy of education funding. While differences in the cost of education between jurisdictions may be due to factors over which local education authorities have some control, such as required levels of education and experience for teachers, often the purpose of cost adjustments is to correct for differences due to factors the local education authorities cannot control.

There are a number of factors outside the control of education authorities that can influence the cost of education, particularly personnel costs, the largest component of school budgets. For example, if the cost of living is higher than average in one area of the State, then salaries need to be higher in order to attract and retain staff. A fixed amount of funding for personnel, therefore, buys "less" personnel than it would in a less expensive area of the State. There are two different approaches to measuring cost-of-

education differences: (1) measuring differences due exclusively to cost of living; and (2) measuring differences due to cost of living and other intangible factors.

The Geographic Cost of Education Index (GCEI) prepared for the National Center for Education Statistics, using intangible factors measured during the 1993-1994 school year, is designed to reflect the differences in cost for comparable school personnel between jurisdictions. It was developed by holding tangible factors constant to determine the influence of intangible factors, such as weather and crime rate. The cost-of-living component in the GCEI is based on the median cost of housing. The GCEI is a hedonic cost index that uses regression analysis to place a dollar value on the desirability of the intangible factors. The more undesirable a factor is determined to be, the more expensive it is to hire personnel to work in a jurisdiction in which that factor is present. Hedonic indices with more precision like the GCEI are relatively recent developments that were created to measure differences that affect education costs. A&M used the GCEI to adjust school spending in the Successful Schools Study.

The second way to look at education cost differences is to look only at differences in the cost of living, based on price, wages, and/or expenditures. The Maryland Department of Business and Economic Development has developed a cost-of-living index based on expenditures, that it provides to businesses that are considering locating in Maryland. The index has four components: (1) housing; (2) food and textiles; (3) utilities; and (4) transportation. None of the components is specifically related to education costs.

Although the data used to develop the GCEI are outdated and may not fully reflect present-day cost pressures, the Commission often used the GCEI when making cost-of-education adjustments to its adequacy estimates. The GCEI was used with the understanding that, like the base cost figures and per pupil weights for special needs students, it is not a perfect measure. **Exhibit 4** shows the GCEI indexed to assume a statewide average of 100. The highest index value is 103.6, 17.5 percent more than the lowest value of 88.2.

Services Not Measured in the Adequacy Studies

Because the Commission focused on the estimated cost to provide the resources necessary for students to meet State standards, the concept of adequacy accepted by the Commission centered on services related to instruction and administration. Other school system costs, such as transportation, food service, and capital expenditures, were not measured in the adequacy studies. The A&M studies expressly excluded the costs

Exhibit 4
Geographic Cost of Education Index (GCEI)
By Maryland Jurisdictions
1993-94 School Year

County	GCEI	County	GCEI
Allegany	90.5	Harford	98.9
Anne Arundel	100.7	Howard	103.1
Baltimore City	102.7	Kent	89.5
Baltimore	100.1	Montgomery	103.6
Calvert	99.3	Prince George's	100.3
Caroline	89.0	Queen Anne's	96.3
Carroll	98.1	St. Mary's	88.2
Cecil	94.5	Somerset	92.7
Charles	97.0	Talbot	92.8
Dorchester	90.3	Washington	96.7
Frederick	99.0	Wicomico	92.5
Garrett	90.4	Worcester	91.6

Source: U.S. Department of Education, National Center for Education Statistics

associated with school functions that are not related to instruction.¹¹ Therefore, any estimates of adequate funding that use the A&M study do not include the additional costs associated with transportation, food service, capital expenditures, and debt service. Similarly, the MAP study included some functional costs (such as transportation) in its final per pupil cost estimates, but told professional judgement panelists not to consider the adequacy of these services. Instead, present-day per pupil spending for these services was added to the per pupil costs identified by the MAP professional judgement panels.

It would be a mistake, however, to assume that these functional services are adequately funded in Maryland. To the contrary, the Commission heard a considerable number of witnesses at its public hearings express concern about deteriorating facilities or children being forced to walk long distances to get to school. The Commission recognizes that efforts to provide adequate instruction and school management depend on the adequacy of programs that allow students to be present at acceptable school facilities.

(C) Maryland's Adequacy Needs

Equipped with data-driven estimates of an adequate base funding level, the additional costs associated with special needs students, and regional cost-of-education

¹¹However, both studies conducted by A&M did estimate the districtwide costs for school maintenance and operations.

adjustments, the Commission assessed the extent to which existing education funding meets or approaches the adequacy needs calculated by the A&M adequacy studies. The Commission examined fiscal 2002 education revenues and compared the revenues to A&M's measurements of adequate funding.

Fiscal 2002 Local School Board Revenues

In fiscal 2002, local school boards budgeted approximately \$7.1 billion in revenues, an average of \$8,458 per pupil. Statewide, the majority of school revenues are appropriated by local governments (\$3.8 billion or 54 percent) and the State (\$2.9 billion or 41 percent). An additional 5 percent of budgeted fiscal 2002 school board revenues (\$355 million) are appropriated by the federal government. (See **Exhibit 5**.) The proportion of revenues coming from local, State, and federal sources, however, varies significantly among Maryland's 24 school systems. For example, more than three-quarters of the budgeted revenues for Montgomery County's schools (77 percent) are appropriated from its county government, while 77 percent of the budgeted revenues for Baltimore City's schools are appropriated from the State (65 percent) and federal (12 percent) governments.

Local school board revenues adjusted to subtract out the revenues that are budgeted for activities not measured in the adequacy studies conducted by A&M (such as transportation and food service) are shown in **Exhibit 6**. Adjusted revenues budgeted in fiscal 2002 total \$6.7 billion, or \$8,012 for every kindergarten through 12th grade student in the State. The four largest school systems in the State had the highest budgeted revenues in fiscal 2002. After adjustments, Montgomery County budgeted nearly \$1.3 billion in revenues, followed by Prince George's County at \$967 million, Baltimore City at \$863 million, and Baltimore County at \$853 million. Examining budgeted revenues per pupil (also shown in Exhibit 6), Montgomery County again shows the highest rate with \$9,571 per pupil, and Baltimore City is second with \$9,212 per pupil. Worcester County is a distant third, budgeting \$8,408 per student.

Projected Fiscal 2002 Adequacy Costs

As discussed above, the adequacy studies conducted for the Commission produced two different per pupil base cost figures (\$5,969 through the Successful Schools Study and \$6,612 through the Professional Judgement Study) and a series of per pupil weights to be used with special student populations (1.17 for special education students, 1.10 for economically disadvantaged students after the overlap adjustment was applied, and 1.00 for students with limited English proficiency). If the proportion of special needs students was the same across all jurisdictions in Maryland, and if the costs

Exhibit 5
Total Estimated Revenues for Public Schools
Fiscal 2002

<u>School System</u>	<u>Local Appropriation</u>	<u>Percent of Total</u>	<u>State Aid</u>	<u>Percent of Total</u>	<u>Federal Aid</u>	<u>Percent of Total</u>	<u>Total Funding</u>
Allegany	\$25,030,000	31.4	\$48,133,400	60.4	\$6,515,211	8.2	\$79,678,611
Anne Arundel	362,680,000	62.2	202,539,011	34.7	18,075,000	3.1	583,294,011
Baltimore City	207,359,017	23.1	587,029,528	65.4	103,180,463	11.5	897,569,008
Baltimore	544,998,339	61.1	306,296,457	34.3	40,907,061	4.6	892,201,857
Calvert	68,899,949	55.6	48,893,828	39.5	6,091,864	4.9	123,885,641
Caroline	10,676,594	28.0	24,432,317	64.0	3,048,976	8.0	38,157,887
Carroll	105,967,515	52.6	88,705,761	44.0	6,790,565	3.4	201,463,841
Cecil	50,884,355	44.8	56,936,484	50.1	5,767,520	5.1	113,588,359
Charles	84,874,200	49.1	81,136,278	46.9	7,017,628	4.1	173,028,106
Dorchester	14,128,372	36.6	20,135,049	52.2	4,337,280	11.2	38,600,701
Frederick	142,610,130	54.1	113,657,326	43.1	7,289,266	2.8	263,556,722
Garrett	15,225,279	39.6	19,802,367	51.5	3,454,207	9.0	38,481,853
Harford	138,335,279	50.3	127,556,718	46.4	9,266,907	3.4	275,158,904
Howard	276,040,340	68.7	115,941,004	28.8	10,066,001	2.5	402,047,345
Kent	12,887,085	55.2	9,133,008	39.1	1,321,595	5.7	23,341,688
Montgomery	1,029,703,651	77.2	271,365,244	20.4	32,358,669	2.4	1,333,427,564
Prince George's	467,788,100	45.2	516,927,540	49.9	50,772,266	4.9	1,035,487,906
Queen Anne's	30,978,413	55.8	21,173,301	38.1	3,396,636	6.1	55,548,350
St. Mary's	52,511,214	46.6	52,049,872	46.2	8,058,792	7.2	112,619,878
Somerset	8,691,731	33.8	13,991,442	54.4	3,048,572	11.8	25,731,745
Talbot	24,019,270	70.0	7,151,709	20.8	3,132,308	9.1	34,303,287
Washington	68,260,854	46.4	69,854,797	47.4	9,111,482	6.2	147,227,133
Wicomico	43,743,788	41.5	54,068,988	51.3	7,570,000	7.2	105,382,776
Worcester	44,100,826	74.2	10,760,872	18.1	4,540,918	7.6	59,402,616
Unallocated	0	-	25,010,114		0	-	25,010,114
Total State	\$3,830,394,301	54.1	\$2,892,682,415	40.9	\$355,119,187	5.0	\$7,078,195,903

Sources: Fiscal 2002 local school board budgets, county budgets, and the Department of Legislative Services

Exhibit 6
Adjusted Estimated Revenues by Local School System
For Adequacy Analysis
Fiscal 2002
(\$ in Thousands)

<u>School System</u>	<u>Budgeted FY 2002 Revenue</u>	<u>Budgeted Transportation Spending</u>	<u>State Aid "Other" Functions</u>	<u>Adjusted FY 2002 Revenue</u>	<u>Adjusted FY 2002 Revenue Per Pupil</u>
Allegany	\$79,679	\$4,466	\$481	\$74,731	\$7,431
Anne Arundel	583,294	28,820	1,722	552,752	7,527
Baltimore City	897,569	30,842	4,137	862,590	9,243
Baltimore	892,202	36,084	3,256	852,861	8,214
Calvert	123,886	6,908	143	116,835	7,215
Caroline	38,158	2,519	486	35,153	6,561
Carroll	201,464	14,165	324	186,975	6,776
Cecil	113,588	6,020	122	107,446	6,921
Charles	173,028	10,513	358	162,157	7,035
Dorchester	38,601	1,991	232	36,378	7,877
Frederick	263,557	11,463	666	251,428	6,832
Garrett	38,482	3,148	208	35,125	7,364
Harford	275,159	15,437	612	259,110	6,652
Howard	402,047	19,681	975	381,392	8,408
Kent	23,342	1,314	159	21,868	8,249
Montgomery	1,333,428	56,121	2,203	1,275,104	9,579
Prince George's	1,035,488	64,969	3,368	967,151	7,331
Queen Anne's	55,548	3,722	117	51,710	7,406
St. Mary's	112,620	7,780	202	104,638	7,150
Somerset	25,732	1,856	89	23,787	8,370
Talbot	34,303	1,196	65	33,042	7,578
Washington	147,227	5,123	837	141,267	7,286
Wicomico	105,383	5,096	383	99,903	7,393
Worcester	59,403	3,342	229	55,831	8,413
Unallocated	25,010	0	8,875	16,135	19
Total State	\$7,078,196	\$342,577	\$30,251	\$6,705,368	\$8,031

Note: Transportation spending and several aid programs are deducted from total revenues because they are for purposes/functions not incorporated in the adequacy analyses.

Sources: Fiscal 2002 local school board budgets, county budgets, and the Department of Legislative Services

of educational services were the same in all regions of the State, the same amount of total revenues per pupil would be needed in all school systems to reach adequacy. However, special student populations and local cost pressures differ considerably among school districts, and therefore the per pupil funding needs vary among districts.

The estimated fiscal 2002 adequacy costs and per pupil adequacy costs for the 24 school districts in Maryland are shown in **Exhibit 7A** (using the successful schools base) and **Exhibit 7B** (using the professional judgement base). These exhibits also compare the per pupil adequacy costs to per pupil revenues. As seen in the exhibits, the budgeted fiscal 2002 revenues in two school systems, Howard and Montgomery counties, exceed their projected adequacy needs when using the successful schools base cost. Howard County's budgeted revenues exceed its projected adequacy need even when using the higher professional judgement base cost. Budgeted revenues in every other school system fall short of the adequacy targets as measured by either study.

The county-by-county adequacy costs presented in Exhibits 7A and 7B do not incorporate any regional cost of education differences due to factors that local school systems cannot control. This analysis, therefore, is repeated in **Exhibit 7C** using the successful schools base and including an adjustment to the adequacy targets for regional cost differences, as measured by the GCEI. Again, an adequacy gap is seen for every school system except Montgomery and Howard counties. In this analysis, however, the difference between per pupil revenues and adequacy targets for these two school systems is reduced. For the other 22 school systems, the adequacy needs increase for 8 school systems and decrease for 14 school systems.

Although budgeted revenues for almost all jurisdictions are below their projected adequacy needs, the difference between need and budgeted resources varies considerably. For example, Allegany and Anne Arundel counties budgeted similar per pupil revenues (\$7,431 and \$7,527 respectively) but differ significantly in how much additional revenue per pupil is needed to reach adequacy. **Exhibit 8A** shows the per pupil and total dollar needs, ranked from highest to lowest need, of each school system. The exhibit clearly indicates that the school systems with the larger per pupil adequacy gaps are the ones with the highest per pupil adequacy targets. In fact, the seven jurisdictions with the highest per pupil needs each require more than \$2,000 per pupil in additional revenues to reach the adequacy levels identified in the Successful Schools Study. Examining need in total dollars shows a somewhat different picture. Prince George's County (needing an additional \$328 million to reach adequacy) and Baltimore City (needing an additional \$274 million to reach adequacy) combined require substantially more funding than the remaining 22 school districts combined. Because many of the other districts with high needs populations are smaller counties, they do not need as much total funding to achieve adequacy. Baltimore and Anne Arundel counties, ranked twentieth and twenty-first respectively in per pupil need, are ranked third and fifth in total dollar need due to their relatively large enrollments.

This analysis is repeated in **Exhibit 8B** using the GCEI to adjust the estimated fiscal 2002 adequacy targets. In this analysis, Baltimore City requires the largest per

Exhibit 7A
Fiscal 2002 Cost of Adequacy,¹ by School System
Using Successful Schools Base

<u>School System</u>	<u>Cost (\$ in Thousands)</u>				<u>Adequacy</u>	<u>Cost Per Pupil²</u>	<u>Revenues Per Pupil</u>	<u>Per Pupil Adequacy Gap</u>
	<u>Base</u>	<u>Spec Ed</u> (weight = 1.17)	<u>FRPM</u> (weight = 1.10)	<u>LEP</u> (weight = 1.00)				
Allegany	\$60,030	\$12,166	\$31,162	\$60	\$103,417	\$10,283	\$7,431	\$2,852
Anne Arundel	438,363	73,183	77,359	4,924	593,830	8,086	7,527	559
Baltimore City	557,039	117,313	457,604	4,835	1,136,790	12,181	9,243	2,938
Baltimore	619,779	90,362	189,663	11,478	911,283	8,776	8,214	563
Calvert	96,662	15,483	12,961	143	125,249	7,734	7,215	520
Caroline	31,982	5,475	15,167	597	53,221	9,933	6,561	3,372
Carroll	164,703	26,908	14,596	531	206,738	7,492	6,776	716
Cecil	92,669	17,362	21,910	466	132,406	8,529	6,921	1,608
Charles	137,585	20,225	33,033	776	191,619	8,313	7,035	1,278
Dorchester	27,565	4,421	14,176	275	46,436	10,055	7,877	2,178
Frederick	219,659	32,391	32,449	2,059	286,558	7,787	6,832	955
Garrett	28,472	5,273	14,241	0	47,986	10,060	7,364	2,696
Harford	232,493	41,176	39,395	2,077	315,141	8,091	6,652	1,439
Howard	270,748	32,111	29,126	7,957	339,942	7,494	8,408	0
Kent	15,824	2,333	6,966	227	25,350	9,562	8,249	1,313
Montgomery	794,569	115,273	195,040	63,647	1,168,530	8,778	9,579	0
Prince George's	787,484	97,465	372,470	37,915	1,295,335	9,818	7,331	2,488
Queen Anne's	41,676	7,535	6,861	185	56,257	8,057	7,406	651
St. Mary's	87,356	14,456	19,035	746	121,593	8,308	7,150	1,159
Somerset	16,964	2,731	11,188	346	31,229	10,988	8,370	2,619
Talbot	26,025	3,352	9,166	418	38,961	8,936	7,578	1,358
Washington	115,727	20,609	34,524	967	171,826	8,863	7,286	1,576
Wicomico	80,665	11,754	33,407	1,540	127,366	9,425	7,393	2,032
Worcester	39,610	6,418	14,688	519	61,236	9,228	8,413	814
Total State	\$4,983,649	\$775,774	\$1,686,189	\$142,689	\$7,588,301	\$9,089	\$8,031	\$1,058

¹ Cost of adequacy does not include costs associated with capital expenditures, debt service, transportation, and food service. Analysis based on fiscal 2000 adequacy base, projected fiscal 2002 enrollments, and weights derived from the professional judgement adequacy analysis.

² These costs do not include an adjustment for cost of education differences among systems.

Exhibit 7B
Fiscal 2002 Cost of Adequacy,¹ by School System
Using Professional Judgement Base

<u>School System</u>	<u>Base</u>	<u>Cost (\$ in Thousands)</u>			<u>Adequacy</u>	<u>Cost Per Pupil²</u>	<u>Revenues Per Pupil</u>	<u>Per Pupil Adequacy Gap</u>
		<u>Spec Ed</u> (weight = 1.17)	<u>FRPM</u> (weight = 1.10)	<u>LEP</u> (weight = 1.00)				
Allegany	\$66,497	\$13,476	\$34,519	\$66	\$114,558	\$11,391	\$7,431	\$3,960
Anne Arundel	485,585	81,066	85,693	5,455	657,799	8,957	7,527	1,430
Baltimore City	617,045	129,950	506,898	5,356	1,259,249	13,494	9,243	4,250
Baltimore	686,544	100,097	210,094	12,715	1,009,449	9,722	8,214	1,508
Calvert	107,075	17,151	14,357	159	138,742	8,567	7,215	1,353
Caroline	35,427	6,065	16,801	661	58,954	11,003	6,561	4,442
Carroll	182,445	29,807	16,168	588	229,009	8,300	6,776	1,523
Cecil	102,651	19,232	24,271	516	146,669	9,447	6,921	2,526
Charles	152,407	22,404	36,591	860	212,261	9,209	7,035	2,174
Dorchester	30,534	4,897	15,703	304	51,438	11,139	7,877	3,261
Frederick	243,322	35,880	35,944	2,281	317,427	8,626	6,832	1,793
Garrett	31,539	5,841	15,776	0	53,156	11,144	7,364	3,780
Harford	257,537	45,612	43,639	2,301	349,089	8,962	6,652	2,310
Howard	299,914	35,570	32,264	8,814	376,562	8,302	8,408	0
Kent	17,528	2,584	7,717	251	28,080	10,592	8,249	2,343
Montgomery	880,163	127,691	216,050	70,504	1,294,408	9,724	9,579	145
Prince George's	872,315	107,964	412,594	41,999	1,434,872	10,876	7,331	3,545
Queen Anne's	46,165	8,347	7,600	205	62,318	8,925	7,406	1,519
St. Mary's	96,767	16,014	21,085	827	134,692	9,203	7,150	2,054
Somerset	18,791	3,025	12,394	383	34,593	12,172	8,370	3,802
Talbot	28,828	3,713	10,153	463	43,158	9,899	7,578	2,320
Washington	128,193	22,829	38,242	1,071	190,336	9,817	7,286	2,531
Wicomico	89,355	13,020	37,006	1,706	141,086	10,440	7,393	3,047
Worcester	43,877	7,109	16,270	575	67,832	10,222	8,413	1,808
Total State	\$5,520,504	\$859,343	\$1,867,830	\$158,060	\$8,405,737	\$10,068	\$8,031	\$2,037

¹ Cost of adequacy does not include costs associated with capital expenditures, debt service, transportation, and food service. Analysis based on fiscal 2000 adequacy base, projected fiscal 2002 enrollments, and weights derived from the professional judgement adequacy analysis.

² These costs do not include an adjustment for cost of education differences among systems.

Exhibit 7C
Fiscal 2002 Cost of Adequacy,¹ by School System
Using Successful Schools Base and Adjusting Costs by the Geographic Cost of Education Index

<u>School System</u>	<u>Base</u>	<u>Cost Adjusted by GCEI (\$ in Thousands)</u>			<u>Adequacy</u>	<u>Cost Per Pupil</u>	<u>Revenues Per Pupil</u>	<u>Per Pupil Adequacy Gap</u>
		<u>Spec Ed</u> (weight = 1.17)	<u>FRPM</u> (weight = 1.10)	<u>LEP</u> (weight = 1.00)				
Allegany	\$55,478	\$11,243	\$28,799	\$55	\$95,574	\$9,503	\$7,431	\$2,072
Anne Arundel	450,561	75,219	79,512	5,061	610,354	8,311	7,527	784
Baltimore City	584,163	123,025	479,886	5,070	1,192,145	12,775	9,243	3,531
Baltimore	633,364	92,343	193,820	11,730	931,257	8,969	8,214	755
Calvert	97,985	15,695	13,138	145	126,963	7,840	7,215	625
Caroline	29,084	4,979	13,793	543	48,398	9,033	6,561	2,472
Carroll	165,093	26,972	14,631	533	207,228	7,510	6,776	734
Cecil	89,419	16,753	21,142	449	127,763	8,229	6,921	1,309
Charles	136,216	20,024	32,704	768	189,713	8,230	7,035	1,195
Dorchester	25,407	4,075	13,066	253	42,801	9,268	7,877	1,391
Frederick	222,100	32,750	32,809	2,082	289,741	7,873	6,832	1,041
Garrett	26,268	4,864	13,139	0	44,271	9,281	7,364	1,917
Harford	234,866	41,596	39,797	2,098	318,358	8,173	6,652	1,521
Howard	285,115	33,815	30,672	8,379	357,981	7,892	8,408	0
Kent	14,464	2,132	6,368	207	23,172	8,741	8,249	492
Montgomery	840,996	122,009	206,436	67,366	1,236,807	9,291	9,579	0
Prince George's	806,269	99,790	381,355	38,820	1,326,233	10,053	7,331	2,722
Queen Anne's	40,955	7,405	6,743	182	55,285	7,918	7,406	512
St. Mary's	78,672	13,019	17,142	672	109,505	7,482	7,150	333
Somerset	16,046	2,583	10,583	327	29,539	10,394	8,370	2,024
Talbot	24,644	3,174	8,680	396	36,894	8,462	7,578	883
Washington	114,254	20,347	34,084	955	169,639	8,750	7,286	1,463
Wicomico	76,161	11,097	31,542	1,454	120,254	8,898	7,393	1,506
Worcester	37,038	6,001	13,734	486	57,259	8,629	8,413	215
Total State	\$5,084,616	\$790,911	\$1,723,575	\$148,032	\$7,747,134	\$9,279	\$8,031	\$1,248

¹ Cost of adequacy does not include costs associated with capital expenditures, debt service, transportation, and food service. Analysis based on fiscal 2000 adequacy base, projected fiscal 2002 enrollments, and weights derived from the professional judgement adequacy analysis.

Exhibit 8A
Comparison of Estimated Fiscal 2002 Education Revenues
With Successful Schools Base Enhanced by Weights
for Special Student Populations from Professional Judgement Study
Using No Cost of Education Adjustment
(School Systems Ranked from Highest to Lowest Need)

<u>Per Pupil Dollars</u>				<u>Total Dollars (in Thousands)</u>			
School System	FY 2002 Revenues	Adjusted FY 2002 Adequacy	Additional Need	School System	Adjusted FY 2002 Revenues	FY 2002 Adequacy	Additional Need
Caroline	\$6,561	\$9,933	\$3,372	Prince George's	\$967,151	\$1,295,335	\$328,184
Baltimore City	9,243	12,181	2,938	Baltimore City	862,590	1,136,790	274,201
Allegany	7,431	10,283	2,852	Baltimore	852,861	911,283	58,422
Garrett	7,364	10,060	2,696	Harford	259,110	315,141	56,031
Somerset	8,370	10,988	2,619	Anne Arundel	552,752	593,830	41,078
Prince George's	7,331	9,818	2,488	Frederick	251,428	286,558	35,130
Dorchester	7,877	10,055	2,178	Washington	141,267	171,826	30,559
Wicomico	7,393	9,425	2,032	Charles	162,157	191,619	29,462
Cecil	6,921	8,529	1,608	Allegany	74,731	103,417	28,686
Washington	7,286	8,863	1,576	Wicomico	99,903	127,366	27,463
Harford	6,652	8,091	1,439	Cecil	107,446	132,406	24,960
Talbot	7,578	8,936	1,358	Carroll	186,975	206,738	19,763
Kent	8,249	9,562	1,313	Caroline	35,153	53,221	18,069
Charles	7,035	8,313	1,278	St. Mary's	104,638	121,593	16,955
St. Mary's	7,150	8,308	1,159	Garrett	35,125	47,986	12,861
Frederick	6,832	7,787	955	Dorchester	36,378	46,436	10,058
Worcester	8,413	9,228	814	Calvert	116,835	125,249	8,414
Carroll	6,776	7,492	716	Somerset	23,787	31,229	7,442
Queen Anne's	7,406	8,057	651	Talbot	33,042	38,961	5,919
Baltimore	8,214	8,776	563	Worcester	55,831	61,236	5,404
Anne Arundel	7,527	8,086	559	Queen Anne's	51,710	56,257	4,547
Calvert	7,215	7,734	520	Kent	21,868	25,350	3,481
Montgomery	9,579	8,778	0	Howard	381,392	339,942	0
Howard	8,408	7,494	0	Montgomery	1,275,104	1,168,530	0
Total State	\$8,031	\$9,089	\$1,058	Total State	\$6,689,234	\$7,588,301	\$1,047,090

Exhibit 8B
Comparison of Estimated Fiscal 2002 Education Revenues
With Successful Schools Base Enhanced by Weights
for Special Student Populations from Professional Judgement Study
And Adjusted by the Geographical Cost of Education Index
(School Systems Ranked from Highest to Lowest Need)

<u>Per Pupil Dollars</u>				<u>Total Dollars (in Thousands)</u>			
School System	FY 2002 Revenues	Adjusted FY 2002 Adequacy	Additional Need	School System	Adjusted FY 2002 Revenues	FY 2002 Adequacy	Additional Need
Baltimore City	\$9,243	\$12,775	\$3,531	Prince George's	\$967,151	\$1,326,233	\$359,082
Prince George's	7,331	10,053	2,722	Baltimore City	862,590	1,192,145	329,555
Caroline	6,561	9,033	2,472	Baltimore	852,861	931,257	78,396
Allegany	7,431	9,503	2,072	Harford	259,110	318,358	59,248
Somerset	8,370	10,394	2,024	Anne Arundel	552,752	610,354	57,602
Garrett	7,364	9,281	1,917	Frederick	251,428	289,741	38,314
Harford	6,652	8,173	1,521	Washington	141,267	169,639	28,371
Wicomico	7,393	8,898	1,506	Charles	162,157	189,713	27,555
Washington	7,286	8,750	1,463	Allegany	74,731	95,574	20,843
Dorchester	7,877	9,268	1,391	Wicomico	99,903	120,254	20,351
Cecil	6,921	8,229	1,309	Cecil	107,446	127,763	20,316
Charles	7,035	8,230	1,195	Carroll	186,975	207,228	20,253
Frederick	6,832	7,873	1,041	Caroline	35,153	48,398	13,246
Talbot	7,578	8,462	883	Calvert	116,835	126,963	10,128
Anne Arundel	7,527	8,311	784	Garrett	35,125	44,271	9,146
Baltimore	8,214	8,969	755	Dorchester	36,378	42,801	6,423
Carroll	6,776	7,510	734	Somerset	23,787	29,539	5,753
Calvert	7,215	7,840	625	St. Mary's	104,638	109,505	4,867
Queen Anne's	7,406	7,918	512	Talbot	33,042	36,894	3,852
Kent	8,249	8,741	492	Queen Anne's	51,710	55,285	3,575
St. Mary's	7,150	7,482	333	Worcester	55,831	57,259	1,428
Worcester	8,413	8,629	215	Kent	21,868	23,172	1,303
Montgomery	9,579	9,291	0	Howard	381,392	357,981	0
Howard	8,408	7,892	0	Montgomery	1,275,104	1,236,807	0
Total State	\$8,031	\$9,089	\$1,058	Total State	\$6,689,234	\$7,747,134	\$1,119,608

pupil increase (\$3,531). Caroline County, which required the largest per pupil increase before costs were adjusted, now has the third highest additional per pupil need (\$2,472), behind Baltimore City and Prince George's County (\$2,722). With the adjustment, Montgomery County has the fifth highest total adequacy cost per pupil (\$9,291 using the successful schools base cost) but requires no additional revenue to reach that level. Prince George's County and Baltimore City again have by far the highest total dollar needs, requiring \$359 and \$330 million respectively.

The Relationship Between Funding and Performance

The relationship between projected adequacy gaps and MSPAP results is explored in **Exhibit 9**. As shown in the exhibit, adequacy gaps are positively related to the “gap” between satisfactory MSPAP scores (70 percent) and actual MSPAP composite index scores. The adequacy gap as calculated using the successful schools base funding level and a geographic cost adjustment shows the strongest association with school performance, with a correlation coefficient of 0.77. This exhibit indicates that there is a link between available funding and school performance. It also shows, however, that achieving an adequacy target does not guarantee satisfactory performance on State performance measures.

Changes in Adequacy Needs Over Time

Once a base cost per pupil is identified, the primary factor in calculating the adequacy target for a school system is enrollment. In order to predict future adequacy needs, the Commission, projected future local enrollments, including enrollments of special populations, using estimates from the Department of Planning. **Exhibit 10** compares overall and per pupil adequacy targets in fiscal 2002 to estimated adequacy targets in fiscal 2007. The exhibit helps to explain the impact of changing enrollments and changing proportions of special needs populations. Over time, enrollment changes will significantly influence the adequacy targets in local school systems and in the State. For example, declining enrollments will result in overall adequacy costs that “level off” as declines in enrollment offset inflationary increases to the per pupil base adequacy figure. Adequacy needs, as measured in total dollars, could even decrease over time if a school system’s enrollment is declining rapidly. Increasing enrollments will obviously lead to higher overall adequacy costs.

The proportion of special needs students within a school system may also change over time, resulting in a change (other than a normal inflationary change) to the amount of revenue a system needs to meet its adequacy target. For example, in 1994 the percent of enrollment eligible for free and reduced meals was similar in Wicomico and St. Mary's counties (31 and 29 percent respectively). By the 2000-2001 school year, however, this proportion had increased to 38 percent in Wicomico County and had decreased to 22

Exhibit 9
2000 MSPAP Composite Indices and
FY 2002 Projected Adequacy Gaps

<u>School System</u>	<u>MSPAP Composite Index</u>	<u>MSPAP Satisfactory Gap</u>	<u>SS Adequacy Gap</u>	<u>PJ Adequacy Gap</u>	<u>SS Adequacy Gap w/GCEI</u>
Baltimore City	20.5	49.5	\$2,938	\$4,250	\$3,531
Prince George's	31.0	39.0	2,488	3,545	2,722
Somerset	38.7	31.3	2,619	3,802	2,024
Dorchester	42.7	27.3	2,178	3,261	1,391
Wicomico	43.0	27.0	2,032	3,047	1,506
Talbot	44.4	25.6	1,358	2,320	883
Charles	46.7	23.3	1,278	2,174	1,195
Allegany	47.4	22.6	2,852	3,960	2,072
Anne Arundel	47.5	22.5	559	1,430	784
Garrett	48.2	21.8	2,696	3,780	1,917
St. Mary's	49.4	20.6	1,159	2,054	333
Caroline	49.8	20.2	3,372	4,442	2,472
Worcester	50.2	19.8	814	1,808	215
Queen Anne's	50.8	19.2	651	1,519	512
Baltimore	50.9	19.1	563	1,508	755
Frederick	51.0	19.0	955	1,793	1,041
Cecil	51.5	18.5	1,608	2,526	1,309
Carroll	54.1	15.9	716	1,523	734
Washington	54.4	15.6	1,576	2,531	1,463
Calvert	55.0	15.0	520	1,353	625
Montgomery	55.4	14.6	0	145	0
Harford	55.7	14.3	1,439	2,310	1,521
Howard	61.4	8.6	0	0	0
Kent	62.0	8.0	1,313	2,343	492
Correlation Coefficient (with MSPAP gap)			0.615	0.640	0.768

Exhibit 10
Comparing Estimated Fiscal 2002 Adequacy Costs with
Estimated Fiscal 2007 Adequacy Costs

School System	Total Estimated Adequacy Costs ¹ (\$ in Millions)				Estimated Adequacy Costs Per Pupil			
	FY 2002	FY 2007	Change FY 2002-07	Percent Change	FY 2002	FY 2007	Change FY 2002-07	Percent Change
Allegany	\$103.4	\$111.9	\$8.4	8.2	\$10,283	\$11,852	\$1,569	15.3
Anne Arundel	593.8	684.7	90.9	15.3	8,086	9,387	1,301	16.1
Baltimore City	1,136.8	1,181.7	44.9	4.0	12,181	14,167	1,985	16.3
Baltimore	911.3	1,054.0	142.7	15.7	8,776	10,307	1,531	17.4
Calvert	125.2	145.4	20.1	16.1	7,734	8,756	1,022	13.2
Caroline	53.2	61.5	8.3	15.6	9,933	11,729	1,796	18.1
Carroll	206.7	238.2	31.4	15.2	7,492	8,549	1,057	14.1
Cecil	132.4	155.1	22.7	17.1	8,529	9,813	1,284	15.1
Charles	191.6	232.7	41.0	21.4	8,313	9,512	1,198	14.4
Dorchester	46.4	50.3	3.9	8.4	10,055	11,563	1,508	15.0
Frederick	286.6	352.1	65.6	22.9	7,787	8,885	1,098	14.1
Garrett	48.0	54.2	6.3	13.0	10,060	11,590	1,530	15.2
Harford	315.1	361.1	46.0	14.6	8,091	9,191	1,100	13.6
Howard	339.9	422.9	83.0	24.4	7,494	8,752	1,257	16.8
Kent	25.3	28.3	2.9	11.5	9,562	11,164	1,601	16.7
Montgomery	1,168.5	1,411.1	242.5	20.8	8,778	10,290	1,512	17.2
Prince George's	1,295.3	1,528.1	232.8	18.0	9,818	11,506	1,688	17.2
Queen Anne's	56.3	65.9	9.7	17.2	8,057	9,035	977	12.1
St. Mary's	121.6	136.0	14.4	11.8	8,308	9,233	924	11.1
Somerset	31.2	35.0	3.7	11.9	10,988	12,872	1,883	17.1
Talbot	39.0	45.1	6.1	15.7	8,936	10,763	1,827	20.4
Washington	171.8	194.2	22.3	13.0	8,863	10,026	1,163	13.1
Wicomico	127.4	157.7	30.3	23.8	9,425	11,419	1,994	21.2
Worcester	61.2	70.9	9.6	15.7	9,228	10,521	1,293	14.0
Total State	\$7,588.3	\$8,777.9	\$1,189.6	15.7	\$9,089	\$10,505	\$1,416	15.6

¹ FY 2002 adequacy costs are based on projected FY 2002 enrollments and the successful schools base cost per pupil (\$5.969) enhanced by weights for special student populations from the Professional Judgement Study. FY 2007 adequacy costs are based on projected FY 2007 enrollments and the successful schools base increased annually beginning in FY 2003 by the projected Implicit Price Deflator. The FY 2007 base cost per pupil is estimated at \$6,852. The GCEI is not used to adjust adequacy targets.

percent in St. Mary's County. Attributable in part to this change, the projected fiscal 2002 per pupil adequacy cost in Wicomico County is approximately \$1,100 higher than in St. Mary's County. If these trends in the enrollment of special needs students continue, Wicomico County will require greater annual revenue increases than St. Mary's County to meet a projected adequacy target.

(D) Using the Results of the Adequacy Studies to Develop an Adequate School Finance System

The principle underlying adequacy is that school systems require a minimum funding level in order to meet State standards. The adequacy studies attempt to quantify this funding level. Assuming that the ultimate goal is the achievement of existing State standards, there are at least three ways the adequacy studies could be used to enhance Maryland's school finance system.

1. The Total Cost Approach

Use the total cost approach to establish a uniform minimum per pupil funding level equal to the statewide average per pupil adequacy cost. Under this approach, the goal is to ensure that a local school system receives aid that is equal to the product of the number of students in the system and the statewide average per pupil adequacy cost. This method would not account for differences in student populations. Instead, all school systems would be treated equally regardless of their special needs student populations. A state with similar proportions of special needs students in all school districts might consider using this method for allocating funding schools.

Both the A&M and MAP professional judgement studies calculated an overall per pupil cost needed to ensure that students meet State standards. In addition, the base funding level calculated in the A&M Successful Schools Study could be used in tandem with the weights from the A&M Professional Judgement Study to compute a statewide per pupil cost. However, since Maryland's 24 local school systems have wide variations in the numbers and types of special needs students, the use of this approach would underfund adequacy in systems with high proportions of special needs students and would create inequities in the State's school finance system.¹²

¹²See Section 2.3 of this report for a discussion of "equity."

2. *The Base Cost Approach*

Use the base cost approach to establish a uniform minimum per pupil funding level equal to the base per pupil adequacy cost. Under this approach, the goal is to ensure that a local school system receives aid that is equal to the product of the number of students in the system and the base per pupil adequacy cost. This method does not address supplemental funding for students with special needs. A state that has not attempted to calculate the additional costs associated with special needs students or a state with very few special needs students might consider this option.

Both of the A&M studies calculated a base cost figure for students without special needs. The MAP study, however, did not separate costs associated with programs for special needs students from its total cost calculations to get a base cost. Since many of Maryland's 24 local school systems have significant numbers of special needs students, the use of this approach would not fully address adequacy and would create inequities in the State's school finance system.

3. *The Targeted Adequacy Approach*

Use the targeted adequacy approach to establish: (1) a uniform minimum per pupil funding level equal to the base per pupil adequacy cost; and (2) an additional funding level for special needs students based on the projected costs associated with serving these students. Under this approach, the goal is to ensure that a local school system receives aid that is equal to the sum of: (1) the product of the number of students in the system and the base per pupil adequacy cost; and (2) the product of the number of special needs students in the system and a measure of the per pupil adequacy costs of special needs populations. A state that has school districts with significant variation in their special needs populations might consider this approach.

The A&M Professional Judgement Study produced a base per pupil adequacy cost figure and a series of per pupil weights for special needs students that could be applied to the base per pupil adequacy cost to estimate the cost of serving students with special needs. The A&M Successful Schools Study produced a base per pupil adequacy cost figure that could be used in conjunction with the per pupil weights for special needs students identified in the A&M Professional Judgement Study. The MAP study did not calculate a base per pupil adequacy cost or per pupil weights for special needs populations. Since Maryland's 24 local school systems have wide variations in the numbers and types of special

needs students, the use of this approach could help to enhance both the adequacy and equity of the State's school finance system.

The adequacy studies establish a direct link between education inputs (e.g., funding) and education outputs (e.g., student and school performance), and the Commission believes the results of the adequacy studies should be used to craft a funding structure for Maryland that is tied to desired performance. However, it is important not to overemphasize this link. In the pursuit of a funding level that matches or exceeds a calculated adequacy target, it would be too easy to lose sight of the ultimate goal -- i.e., the achievement of State standards for all student populations. The Commission's proposal, which is discussed in Chapter 3 of this report, recommends using the results of the adequacy studies with the targeted adequacy approach to enhance Maryland's school finance system.

2.3 Equity

The Commission has been charged with making recommendations that "ensure equity in funding for students in public schools." As a starting point for implementing this charge, the Commission noted that approximately 65 percent of State aid is currently wealth equalized, and 19 percent of State aid is currently targeted to students with special needs. In order to facilitate further discussion of issues relating to equity, the Commission issued a task order in July 2000 requesting that A&M evaluate the equity of Maryland's school funding system.¹³ The equity analysis prepared by A&M was presented to the Commission in August 2000.¹⁴ The analysis focused on "fiscal" equity, which emphasizes disparities in revenues, rather than on "programmatic" equity, which emphasizes disparities in expenditures (e.g., expenditures for resources such as number of teachers and teacher salaries).

According to A&M, the concept of equity is associated with the needs of school districts, the wealth of school districts, and the tax effort that school districts make to generate local funding for public schools. Essentially, an equitable school finance system is one in which the combination of state and local revenues available to school districts is measurably related to the particular needs of individual school districts, while simultaneously not being related to their wealth and having a relationship to their tax effort.¹⁵ After reviewing the equity of the various components of Maryland's school

¹³See Appendix 5 of the Commission's Interim Report (December 2000).

¹⁴See Documents 10 and 11 in the Technical Supplement to the Commission's Interim Report (December 2000).

¹⁵See Document 10 (page 2) of the Technical Supplement to the Commission's Interim Report (December 2000).

finance system, Dr. Augenblick concluded that “Maryland’s school finance system produces a high level of equity.”¹⁶

However, A&M also advised the Commission that “the system could . . . be improved [and] . . . that particular components of the system are . . . inequitable.”¹⁷ Specifically, A&M stated that:

“[t]he foundation program, including the state and local pieces of it, works well and should not be dismantled. Other state aids, excluding retirement funding, do a good job, in combination, of reflecting the different needs of school districts but could be made more sensitive to differences in district wealth. State retirement funds are distributed in an inequitable manner. Perhaps most important, local funds generated for current operating purposes beyond the foundation requirement are disequalizing and something should be done, given their importance as a source of revenue, to deal with the problems they cause by being raised in a manner that is unrelated to district need and positively related to district wealth.”¹⁸

A&M advised the Commission that the State could improve the equity of its school finance system by changing the way State retirement funds are allocated, modifying the foundation program to include more local funds or to be more sensitive to district need (thereby reducing the need for the State to provide funds outside of the foundation program), or creating a “second tier” of funding that provides aid in recognition of the variation in school district tax effort.¹⁹

The Commission continued to explore issues relating to the equity of the State’s school finance system throughout the 2001 interim. After receiving the results of the adequacy studies completed by A&M and MAP, the Commission explored dozens of alternative approaches to enhancing the State’s school finance system. Many of these alternatives reflected some of the changes suggested by A&M (e.g., wealth equalizing retirement funding and creating a second tier program). Many of the alternatives also reflected other changes that would increase the equity of the State’s school finance system (e.g., creating new categorical programs that target and wealth equalize funding for special needs students). The Commission’s final proposal includes a number of components that help increase the level of equity in the State’s school finance system.

¹⁶Id. at 9.

¹⁷Id.

¹⁸Id.

¹⁹Id. at 10.

2.4 Accountability and Excellence

In addition to reviewing the State's school finance system and making recommendations regarding ways to improve this system, the Commission is charged with reviewing the State's accountability system and making recommendations regarding ways to "ensure excellence in school systems and student performance statewide." The Commission began its efforts to address this charge during the 2000 interim by conducting a number of briefings on subjects relating to performance accountability measures for both students and schools. The Commission continued its efforts during the 2001 interim by examining the standards-based approach to education finance and learning about recent evaluations of Maryland's existing accountability structure.

(A) The Standards-based Approach

Augenblick & Myers advised the Commission that the primary obligations of a state in a standards-based education system are to: (1) establish performance standards for students, schools, and school systems; (2) ensure that schools and school systems have adequate funding necessary to meet the State's performance standards; and (3) hold schools and school systems accountable for making progress toward, and ultimately meeting, the State's performance standards. Viewed from this perspective, accountability is driven primarily by educational outputs. In contrast, under Maryland's present education finance system, accountability for a number of State aid programs is based on educational inputs such as the implementation of specific programs, the reduction of class sizes, or increases to teacher salaries. Augenblick and Myers' articulation of State and local obligations suggests that these types of programmatic accountability requirements should be eliminated and a local school system should be given the flexibility to allocate available resources as necessary to meet the needs of students in that particular jurisdiction.

The Commission reviewed the accountability components of the Student Accountability Funding for Excellence (SAFE) program in order to develop a better understanding of how flexible, output-driven accountability mechanisms can be built into education funding programs. Under the SAFE program, local school systems receive State aid for a variety of programs relating to students who are at risk of failing in school. In order to receive SAFE funding, local school systems are currently required to submit SAFE comprehensive plans to the MSDE that incorporate State, local, and federal funding streams that are used to serve this population of students. Although some local school systems have suggested that the SAFE comprehensive plan requirements are too burdensome, the requirement that local school systems develop the plans has provided the impetus for local school systems to consider the overall strategy and resources available to address the needs of students who are at risk of failing.

(B) Maryland's Accountability Standards

Maryland has a nationally recognized system of school and student assessment. MSPAP is a decade-old effort to raise standards and improve teaching at public elementary and middle schools through statewide, interdisciplinary performance assessments. The High School Assessment Test is a series of end-of-course assessments to measure the proficiency of students on core learning goals. The Independent Mastery Assessment Program is an individualized approach to assess students with special educational needs using portfolios and assessing the attainment of goals identified through the Individualized Education Program (IEP) process. Additionally, the State gathers performance data on career and technology education, national assessment measures, attendance rates, and dropout rates. Most of this information is collected on a disaggregated basis to allow the State to track performance by race, gender, economic status, limited English proficiency, and special educational needs.

The State is currently using existing assessment instruments to provide sanctions and awards to low and high performing schools. However, the existing consequences are somewhat limited. The School Accountability Program provides approximately \$3 million annually to high performing schools, and the Reconstitution Program is limited to very low performing schools. Additionally, the existing consequences are based on overall school performance, rather than a thorough analysis of the performance of different segments of the student population.

MSPAP Study Conducted by the University of Maryland and SRI, International

To gain insight into the effectiveness of the current measures utilized by the State to foster excellence in school systems, the Commission held a briefing on the preliminary results of an independent study of MSPAP that was conducted this past year. The study was designed by faculty at the University of Maryland, College of Education, Maryland Assessment Center for Education Success (MARCES) and conducted by SRI, International. In a preliminary report issued in October 2001, SRI International set forth findings and recommendations regarding the State's 10-year effort to use MSPAP to raise standards and improve teaching in public schools. The Commission was advised that a final report would be issued by MARCES in December 2001.

The researchers reviewed the subject matter covered by MSPAP, its alignment with the Maryland learning standards, the design of the items presented to students in the assessment, and scoring criteria. The researchers concluded that, in most instances, the assessments relate strongly to Maryland's prescribed learning outcomes and that there is alignment with subject content standards. In its preliminary report, SRI International noted that there have been numerous studies and evaluations relating to MSPAP and that

the results of these studies and evaluations make up one of the most extensive bodies of research available today for a statewide assessment program. To enhance MSPAP, the researchers suggested that Maryland could:

- improve the documentation of higher-order skills tested by MSPAP;
- display alignment of MSPAP with the Maryland Learning Outcomes;
- convene panels of subject matter experts from universities and national organizations to review the tasks in MSPAP; and
- continue compiling evidence on the assessments' validity and pursue several avenues to help increase understanding of that validity.

The Commission was pleased to learn that independent experts have concluded that MSPAP is an effective tool for improving the quality and excellence of its public schools. The Commission encouraged MSDE to give thoughtful consideration to the suggestions for improving MSPAP that have been offered by SRI International, particularly since doing so may have the added benefit of inspiring greater confidence and acceptance by the public of the State's educational reform efforts.

MSDE's Visionary Panel for Better Schools

In another effort to assess the efficacy of Maryland's school accountability efforts, the State Superintendent of Schools announced in January 2001 that she had created a 40-member Visionary Panel for Better Schools (Visionary Panel) and charged it with the responsibility of conducting a year-long examination of Maryland's school reform program. The Visionary Panel was asked to review Maryland's progress in school reform over the past ten years and make recommendations regarding measures that can accelerate progress in the coming decade. In November 2001, the Commission received a briefing on the work of the panel. At this briefing, the Commission learned that the Visionary Panel is composed of parents, educators, and representatives of business and education advocacy groups. The Visionary Panel worked throughout 2001 in cooperation with eight workgroups made up of stakeholders and national experts. The subjects studied by the panel and its workgroups included learning, teacher quality, leadership, accountability, assessment, achievement gaps, funding resources, and communications. Representatives of some 300 stakeholder groups provided testimony to the Visionary Panel.

In December 2001, the Visionary Panel released the task force reports from which it will draw its final recommendations. The task force reports emphasized the paramount importance of excellent teaching in Maryland's reform movement and the use of assessments and standards to improve instruction. Among the recommendations set forth in the task force reports are suggestions on ways to improve professional development

for teachers and principals, strengthen accountability for schools, expand the duties of the State and local school systems, and improve alignment between standards and assessments. In addition, the task force reports include suggestions for closing achievement gaps, improving the use of educational technology, and increasing the focus on early learning. The Visionary Panel is expected to meet in January 2002 to decide on final recommendations, and these recommendations will be forwarded to the State Superintendent of Schools. The Commission is very supportive of the work of the Visionary Panel and believes that its recommendations will provide the impetus for further improvements in the educational achievement of all children in Maryland schools.

2.5 Funding That Expires at the End of Fiscal 2003

The Commission is required, as a part of its charge, to make recommendations as to how to provide for “a smooth transition as current educational funding initiatives abrogate.” This charge relates to a variety of categorical aid programs established in legislation relating to the Baltimore City/State Partnership, School Accountability Funding for Excellence (SAFE) Program, Governor’s Teacher Salary Challenge Program, and Prince George’s County school construction program that were originally scheduled to terminate (i.e., “sunset”) at the end of fiscal 2002. In its December 2001 Interim Report, the Commission concluded that a final decision on whether to extend, repeal, or modify these programs could not be made until after the completion of an adequacy study and recommended that these programs be extended for one year. Based on the Commission’s recommendation, the General Assembly passed legislation in 2001 that extended these programs until the end of fiscal 2003. The General Assembly also passed separate legislation in 2001 that altered the State/local cost share for the Baltimore City school construction program for fiscal 2002 and 2003. The need to provide for a smooth transition when these current programs terminate was a key factor in the Commission’s deliberations during the 2001 interim, and the Commission believes that its final proposal accomplishes this goal.

2.6 Targeted Funding Versus Foundation Program

The Commission is charged with “analyzing whether it is more effective to provide additional State aid in the form of targeted grants or by increasing funding through the base formula.” The Commission began its efforts to address this aspect of its charge during the 2000 interim by reviewing all of the State’s existing education funding programs. That review revealed that State aid for education is currently distributed through approximately 50 different funding programs,²⁰ some of which can be classified as general education programs (e.g., Basic Current Expense, the Governor’s Teacher Salary Challenge Program, the Class Size Initiative, and teachers’ retirement)

²⁰See Document 17 of the Technical Supplement to the Commission’s Interim Report (December 2000).

and some of which target funding to students with special needs (e.g., Compensatory Aid, special education funding, Targeted Improvement Grants, and limited English proficiency funding). Under Maryland's existing school finance system, 75 percent of State aid is directed towards general education and 19 percent is targeted for special needs students. Another 6 percent of State aid funds "functional" programs such as student transportation and food service.

(A) Funding Targeted to Students with Special Needs

Based on the results of the A&M Professional Judgement Study, a substantial portion of the total cost of meeting projected adequacy targets reflects additional funding needed to ensure that special student populations meet State standards. In fact, the pupil weights identified in the A&M Professional Judgement Study suggest that additional per pupil funding for special needs students should be greater than (for special education and economically disadvantaged students) or equal to (for LEP students) per pupil general education funding. In fiscal 2002, however, aggregate per pupil State aid for general education is approximately \$2,600 per pupil, compared to an estimated \$1,700 per special education pupil, \$1,300 per at-risk pupil, and \$1,250 per LEP pupil.²¹ **Exhibit 11** compares the special needs of local school systems to their projected adequacy gaps using the base cost derived from the Successful Schools Study and the weights derived from the Professional Judgement Study. The exhibit shows that the school systems with the highest proportions of special needs students generally have greater adequacy gaps, and school systems with lower proportions of special needs students generally have smaller adequacy gaps.

The adequacy studies suggest that more funding is needed for the general student population and for students with special needs. On a per pupil basis, however, more new funding is needed for special populations than is needed for the general student population. The Commission's proposal, discussed in Chapter 3, uses the adequacy studies to develop an approach that targets additional State aid to school systems based on local student populations.

(B) Targeted Programs

A second way to examine the concept of targeting is to consider whether there is a need for specific educational programs for particular student populations. During the

²¹These estimates are based on projected enrollments for the 2001-2002 school year. The estimates reflect only State aid, and do not attempt to categorize federal or local funding for education.

Exhibit 11
Comparison of Estimated Fiscal 2002
Per Pupil Adequacy Gap with
Proportion of Special Needs Students

School System	Adequacy Gap¹ Per Pupil	Special Needs Sum²	Special Needs Rank (Low to High)
Caroline	\$3,372	58.4%	19
Baltimore City	2,938	90.1%	24
Allegany	2,852	66.9%	22
Garrett	2,696	63.0%	20
Somerset	2,619	74.2%	23
Prince George's	2,488	55.4%	18
Dorchester	2,178	64.9%	21
Wicomico	2,032	51.2%	16
Cecil	1,608	38.8%	10
Washington	1,576	43.4%	14
Harford	1,439	31.6%	7
Talbot	1,358	42.5%	13
Kent	1,313	52.7%	17
Charles	1,278	34.3%	8
St. Mary's	1,159	37.1%	9
Frederick	955	26.6%	3
Worcester	814	50.0%	15
Carroll	716	22.7%	2
Queen Anne's	651	31.5%	6
Baltimore	563	41.5%	11
Anne Arundel	559	31.2%	5
Calvert	520	26.9%	4
Montgomery	0	41.6%	12
Howard	0	22.2%	1
Correlation with Gap		0.814	
Total State	\$1,058	46.1%	

¹ The adequacy gap is measured using the successful schools base and the weights identified by the Professional Judgement Study. No regional cost of education adjustments were made.

² Special needs sum is the percent of K-12 enrollment with special education needs plus the percent eligible for free or reduced meals plus the percent with limited English proficiency. Due to overlap of these populations, it is not equal to the percent of enrollment with special needs. Enrollments are those used for FY 2002 funding.

2001 interim, the Commission considered a number of issues relating to the particular needs of two student populations -- young children and gifted and talented students.

Early Childhood Education

The Commission received information from a variety of sources regarding the need for targeted early education programs. As discussed above in Section 2.2 of this chapter, the panels of educators used in both the A&M and MAP adequacy studies emphasized the need for early childhood education programs. A report issued by the Judith P. Hoyer Commission on the Financing of Early Child Care and Education in November 2001 summarizes the results of a growing body of research regarding the importance of early learning. The report discusses a number of research studies that have explored how brain development occurs in early childhood and how quality experiences affect a child's development and concludes that the "[r]esearch unequivocally demonstrates that positive brain development, and long-term school success, is linked to quality, stimulating experiences in the early years of childhood."²² The report also states that this "nationally recognized research on early brain development . . . support[s] the demand for greater quality early child care and education."²³

Gifted and Talented Students

The Commission also explored funding issues relating to the needs of gifted and talented students. The Commission on Funding and Services for Gifted and Talented Student Education in Maryland (G &T Commission), which issued a final report in December 2001, estimates that one out of every eight students in Maryland can be classified as gifted and talented and that the proportion of gifted and talented students is more or less equal throughout school systems. However, the G&T Commission believes that many of these students are currently overlooked or underserved. In its report, the G&T Commission stresses the need to: (1) establish and implement uniform standards regarding the definition, identification, and teaching of gifted and talented students; and (2) provide adequate funding for programs that serve these students.

2.7 Local Tax Restrictions/Education Effort

The Commission has been charged with "ensuring that local property tax policies do not affect the equitable allocation of funding for students in public schools." The Commission began to address this charge during the 2000 interim by examining

²²Final Report of the Judith P. Hoyer Commission on the Financing of Early Child Care and Education, p. 5 (November 2001).

²³Id.

education effort in Maryland's 24 local school systems.²⁴ This work was extended in the 2001 interim, as the Commission looked more closely at local property tax restrictions and the current "maintenance of effort" requirement that determines the minimum amount of local funding that jurisdictions must annually devote to public education.

As evidenced by Exhibit 5 in this report (page 24), funding for education is a responsibility that is shared by State, local, and federal governments. In fact, local governments contribute more than half (54 percent) of education funding in Maryland, with the State providing 41 percent and the federal government 5 percent. Over the last six fiscal years, local appropriations for education have increased by 32 percent, or nearly 6 percent annually. (See **Exhibit 12**.) However, this has not been consistent among the school systems. Local appropriations increased by 56 percent in Howard County and by 41 to 45 percent in Calvert, Frederick, Queen Anne's, Washington, and Wicomico counties. In contrast, local appropriations increased by just 4 percent in Baltimore City, 6 percent in Caroline County, and 15 to 19 percent in Allegany, Dorchester, and Prince George's counties.

(A) Local Property Tax Limitations

Five charter counties (Anne Arundel, Montgomery, Prince George's, Talbot, and Wicomico) have amended their charters to limit property tax rates or revenue growth. With the exception of Montgomery County, the limits can be adjusted only through a charter amendment. Montgomery County's limit may be adjusted by a favorable vote of seven of the nine county council members. In addition, Prince George's County has a charter provision requiring that any increase in a tax or fee be submitted to the voters for approval. This requirement, however, may not be applied to increases in the county income tax.

In 1977, the Court of Appeals held that the area of public education has been preempted by the State and that local governments lack the authority to enact laws regarding public education.²⁵ Under the State's constitution, charter amendments that impose tax restrictions, like any other charter amendment, are subject to the General Laws of the State. Therefore, the State has the authority to enact legislation that overrides tax restrictions in a county's charter.²⁶ The State also has the authority to enact legislation that establishes procedures that would allow a county to exceed a tax restriction for the purpose of funding public schools.²⁷ In 1992, the Court of Appeals

²⁴See Document 22 in the Technical Supplement to the Commission's Interim Report (December 2000).

²⁵*McCarthy v. Board of Education of Anne Arundel County*, 280 Md. 634, 651 (1977).

²⁶See 79 Op. Att'y Gen. No. 94-057 (1994).

²⁷Id.

Exhibit 12
Local Education Aid, FY 1997 to 2002

Local Unit	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	Avg Annual Increase	Total Increase
Allegany	\$21,085,901	\$21,579,685	\$22,230,000	\$23,030,000	\$24,030,000	\$25,030,000	3.5%	18.7%
Anne Arundel	269,865,943	274,677,935	288,074,000	315,085,000	342,685,000	362,680,000	6.1%	34.4%
Baltimore City	199,202,000	200,553,494	197,548,000	200,336,029	203,990,029	207,359,017	0.8%	4.1%
Baltimore	414,232,678	426,129,600	442,275,009	466,811,599	521,961,615	544,998,339	5.6%	31.6%
Calvert	47,504,375	50,204,375	54,460,115	58,886,629	62,710,115	68,899,949	7.7%	45.0%
Caroline	10,049,223	10,500,000	10,696,100	10,792,525	10,797,748	10,676,594	1.2%	6.2%
Carroll	78,645,415	82,337,057	88,010,896	91,479,965	97,566,365	105,967,515	6.1%	34.7%
Cecil	36,944,826	39,107,290	42,407,433	45,407,433	48,407,433	50,884,355	6.6%	37.7%
Charles	62,827,600	65,411,600	67,876,600	76,213,100	80,153,800	84,874,200	6.2%	35.1%
Dorchester	12,322,111	12,866,145	12,866,145	13,766,145	14,352,351	14,128,372	2.8%	14.7%
Frederick	100,030,668	107,305,482	108,984,386	118,393,606	130,444,883	142,610,130	7.4%	42.6%
Garrett	11,829,805	12,067,841	12,850,000	13,650,000	14,524,602	15,225,279	5.2%	28.7%
Harford	105,081,873	109,843,680	113,800,459	120,720,464	127,767,196	138,335,279	5.7%	31.6%
Howard	177,425,140	184,605,140	199,072,140	220,800,162	248,277,270	276,040,340	9.2%	55.6%
Kent	10,368,159	10,790,085	11,090,085	11,522,085	12,237,085	12,887,085	4.4%	24.3%
Montgomery	740,909,062	775,813,180	823,599,191	870,940,869	960,954,838	1,029,703,651	6.8%	39.0%
Prince George's	398,605,340	408,085,500	421,700,000	428,900,000	458,988,100	467,788,100	3.3%	17.4%
Queen Anne's	21,929,642	22,606,642	25,706,642	27,057,534	29,257,534	30,978,413	7.2%	41.3%
St. Mary's	38,631,212	40,059,540	42,423,000	46,340,317	49,438,589	52,511,214	6.3%	35.9%
Somerset	6,449,082	7,093,992	7,619,448	8,119,440	8,849,988	8,691,731	6.2%	34.8%
Talbot	18,578,034	19,161,907	20,000,000	20,875,000	22,263,270	24,019,270	5.3%	29.3%
Washington	48,232,737	51,660,681	55,229,520	59,729,520	63,814,189	68,260,854	7.2%	41.5%
Wicomico	30,343,035	31,788,236	35,426,026	38,143,788	43,743,788	43,743,788	7.6%	44.2%
Worcester	32,437,364	35,395,267	36,957,783	38,782,493	40,358,892	44,100,826	6.3%	36.0%
Total Local Aid	\$2,893,531,225	\$2,999,644,354	\$3,140,902,978	\$3,325,783,703	\$3,617,574,680	\$3,830,394,301	5.8%	32.4%

Notes:

Local aid figures include transportation but do not include capital costs and debt service.

FY 1997 and 1998 local aid figures are actuals; FY 1999 to 2002 local aid figures are budgeted appropriations.

held that, even in the absence of State law that expressly supercedes a tax cap, a local tax cap may be found invalid if it prevents a county from performing its duties under State law.²⁸ Thus, a local tax cap that inhibits a county's ability to raise enough revenue for education may be invalid even in the absence of a State law that expressly overrides the restriction.

While it is clear that the State has the authority to override a local property tax restriction, particularly if the restriction is impeding a jurisdiction's ability to fund education, it is less clear whether there is presently a need to do so. Three of the four counties that have had tax restrictions in place from fiscal 1997 to 2002 (Wicomico's restriction was enacted in November 2001) have increased funding for education at a rate that is equal to or greater than the State average. Over time, however, a tax restriction may begin to inhibit a jurisdiction's ability to raise local revenue and adequately fund education.

(B) Maintenance of Effort

Under current State law, counties must abide by a "maintenance of effort" requirement to be eligible to receive current expense formula funding.²⁹ A local jurisdiction is in compliance with the requirement if it provides at least as much education aid per pupil as it provided the previous fiscal year. If a jurisdiction is unable to meet the maintenance of effort requirement due to its fiscal condition, it may apply to the State Board of Education for a waiver of the policy.

Changes in per pupil local appropriations and per pupil wealth from fiscal 1997 to fiscal 2002 are shown in **Exhibit 13**. The exhibit demonstrates that, on a statewide basis, local per pupil appropriations increased by nearly \$1,000, or 26 percent. The table also shows that the statewide increase in local appropriations has outpaced increases in per pupil wealth, meaning that local education effort measured on a per pupil basis has increased. Once again, however, this pattern is not uniform across the State. For example, local per pupil appropriations have increased by less than 10 percent in Caroline and Prince George's counties and have increased by more than 40 percent in Somerset, Washington, and Wicomico counties. Increases in per pupil wealth also show a wide range, from less than 2 percent in Prince George's County to 32 percent in Talbot County. In all local jurisdictions except Baltimore City and Caroline, Dorchester, and Talbot counties, the growth in per pupil appropriations has increased at a greater rate than per pupil wealth. This comparison is most striking in Caroline County, where wealth per pupil has increased 24 percent while per pupil appropriations have increased by only

²⁸*Board v. Smallwood*, 327 Md. 220, 243-44 (1992). See also 79 Op. Att'y Gen. No. 94-057 (1994).

²⁹See §5-202 of the Education Article.

Exhibit 13
Local Per Pupil Appropriations and Wealth, FY 1997 to 2002

<u>School System</u>	<u>Local Appropriation Per Pupil</u>		<u>Percent Increase</u>	<u>Percent Increase in Wealth Per Pupil</u>
	<u>FY 1997</u>	<u>FY 2002</u>		
Allegany	\$1,997	\$2,573	28.9%	13.9%
Anne Arundel	3,919	5,107	30.3%	21.1%
Baltimore City	2,000	2,300	15.0%	17.9%
Baltimore	4,266	5,417	27.0%	18.6%
Calvert	3,543	4,397	24.1%	7.2%
Caroline	1,938	2,069	6.8%	23.8%
Carroll	3,150	3,970	26.0%	19.4%
Cecil	2,642	3,399	28.7%	16.2%
Charles	3,131	3,792	21.1%	9.8%
Dorchester	2,542	3,146	23.8%	24.4%
Frederick	3,132	4,017	28.3%	19.1%
Garrett	2,340	3,192	36.4%	29.1%
Harford	2,962	3,682	24.3%	22.9%
Howard	4,773	6,284	31.7%	13.5%
Kent	3,942	5,012	27.2%	21.5%
Montgomery	6,430	8,017	24.7%	12.7%
Prince George's	3,396	3,675	8.2%	1.6%
Queen Anne's	3,699	4,600	24.4%	16.8%
St. Mary's	2,909	3,715	27.7%	23.4%
Somerset	2,215	3,173	43.2%	23.7%
Talbot	4,451	5,708	28.2%	31.7%
Washington	2,574	3,651	41.9%	27.1%
Wicomico	2,327	3,344	43.7%	20.6%
Worcester	5,087	6,858	34.8%	20.1%
Total	\$3,768	\$4,747	26.0%	16.5%

Note: FY 2002 enrollments used in the calculation of per pupil appropriations are estimates. FY 2002 local appropriations are budgeted appropriations.

7 percent. Caroline County also has the lowest per pupil appropriation in fiscal 2002 at \$2,069. Montgomery County has the highest fiscal 2002 per pupil appropriation at \$8,017.

Under the current maintenance of effort requirement, increases in local per pupil appropriations from fiscal 1997 to 2002 have grown faster than per pupil wealth in most jurisdictions. During this time period, total local appropriations have increased an average of 5.8 percent annually, a rate nearly identical to the 5.7 percent annual increase in State education aid. Some jurisdictions, however, have not significantly enhanced appropriations to their local boards of education due to very modest increases in wealth or declining local effort. The Commission's recommendations regarding local property tax restrictions, maintenance of effort, and local education effort can be found in Section 3.4 of this report.

Chapter 3: The Commission's Proposal to Enhance Maryland's School Finance System

3.1 Introduction

After two years of extensive work, the Commission on Education Finance, Equity, and Excellence has concluded that there is a need to enhance Maryland's school finance system to ensure that: (1) Maryland has an education funding framework that will allow students and schools to meet the State's rigorous and nationally recognized performance standards; and (2) State aid is distributed in an equitable manner, such that the per pupil amount of State aid received by a local jurisdiction is inversely related to the wealth of the jurisdiction and positively related to the special needs of students in the jurisdiction. The Commission has also concluded that there is a need to consolidate a variety of existing State aid programs to create a more rationally structured school finance system that provides flexibility and predictability for local school systems.

The next section of this Chapter discusses the guiding principles that are reflected in the Commission's proposal to enhance Maryland's school finance system. The remainder of this Chapter discusses each component of the Commission's proposal in detail, including its fiscal impact on the State and local school systems. It is very important to note that projections of State aid under the Commission's proposal are estimates. In particular, the Commission notes that the data that was used to calculate the amount of State aid that would be distributed to local school systems in fiscal 2003 under current law has not been finalized. Therefore, the relationship between the Commission's proposal for fiscal 2003 and current law cannot yet be determined with absolute accuracy. Since minor adjustments to the Commission's proposal may be necessary, the Commission has built some flexibility into its proposed implementation schedule.

3.2 Principles Reflected in the Commission's Proposal to Enhance Maryland's School Finance System

The guiding principles that are reflected in specific components of the Commission's proposal are discussed below in this section. However, it is important to note at the outset that there are several principles that permeated every facet of the Commission's work.

- **Adequacy:** The Commission believes there should be a direct link between what is expected of school systems and the level of funding that school systems receive. Thus, a proper model for funding school systems is founded on the

projected costs associated with meeting State performance standards, including the additional costs associated with providing necessary services to students with special needs.

- **Equity:** The Commission believes that educational opportunities should not depend on a jurisdiction's relative ability to raise revenue from local sources. Accordingly, the Commission worked under the premise that, to the extent practicable, funding for education should be wealth-equalized so that per pupil State aid in less wealthy jurisdictions is greater than per pupil State aid in more wealthy jurisdictions.
- **Simplicity:** Many of the approximately 50 State aid programs that exist under current law were created in recent years in order to enhance State aid for education beyond the annual mandated increases provided under the State's larger funding programs (e.g., Basic Current Expense formula). The Commission believes that State's school finance system should be simplified and that the vast majority of State aid should be funneled through four State aid formulas -- i.e., the foundation program and one aid formula for each of the three special needs populations.
- **Flexibility:** Most existing State aid programs contain mandates on how funding from the program, and sometimes the local matches associated with program, must be spent. The Commission believes that many of these mandates are unnecessarily restrictive. Since local boards of education and superintendents are generally in the best position to make decisions about the types of resources that are needed in their jurisdictions, the Commission believes that most State aid should be distributed in the form of flexible block grants.

The remainder of this section discusses how the Commission used these overriding principles to guide its decisions and to eventually arrive at a proposal for enhancing Maryland's school finance system.

(A) Consolidation

As noted above, State aid for education is currently distributed through approximately 50 separate funding programs. The Commission believes that this array of programs is unnecessarily complex and administratively burdensome. The Commission also believes that many of these program have overlapping goals, are unnecessarily restrictive, are distributed in an inequitable manner, and are unrelated to the special needs of students in particular jurisdictions. The school finance model recommended by the Commission consolidates many of these programs, provides greater

flexibility to local jurisdictions, and increases the percentage of State aid that is wealth equalized and/or directly related to the needs of particular student populations.

The 50 State aid programs that exist under current law and the way these programs would be treated under the proposed model are shown in **Exhibit 14**. Ten general education programs are rolled into the State's foundation program -- i.e., the Basic Current Expense formula. Another 11 general education programs, including the teachers' retirement program, continue as separate programs. Three new categorical programs are established for the purpose of providing funding for students who need special education services, are from economically disadvantaged backgrounds, or have limited English proficiency. Eighteen categorical programs are rolled into the new categorical program that will provide funding for students from economically disadvantaged backgrounds, and six categorical programs continue as separate programs. The existing funding streams for special education, both the first and second tiers, are consolidated with funding distributed in the same manner as the current second tier. A new program for LEP funding replaces the existing LEP program.

(B) Base Cost

The Commission believes that there is an inadequate link between the current method of establishing the level of funding distributed under the State's foundation program and the goal of providing funding that is necessary to allow students, schools, and school systems to meet the State's performance standards. The Commission believes that the amount of funding distributed under the State's foundation program should be enhanced to reflect the base cost figure of \$5,969 derived from the Successful Schools Study conducted by A&M. This figure is adjusted downwards in the school finance model recommended by the Commission to reflect: (1) the costs associated with the teachers' retirement program and ten other State-funded general education programs that continue outside the foundation program; and (2) the existence of four general education programs that are federally funded. For fiscal 2002, the adjusted foundation amount is \$5,443.³⁰ Under the Commission's proposal, this figure would be adjusted each year by the Implicit Price Deflator for State and Local Government Expenditures.

The Commission chose the base cost figure from the A&M Successful Schools Study for several reasons. First, the Commission believes the study linked spending with school performance, determining base costs by examining actual spending in schools that are already meeting State standards. The Commission believes the schools selected for the study provide compelling evidence that schools can succeed with the base funding level identified in the study. Second, the base cost figure derived from the Successful Schools Study reflects a "middle ground" between the MAP professional judgement team that recommended very moderate increases to current education funding and the higher

³⁰The per pupil amount for the fiscal 2002 basic current expense formula is \$4,124.

Exhibit 14
Status of State and Federal Aid Programs Under Commission Proposal, Based on Fiscal 2002 Funding Levels
(\$ in Thousands)

PROGRAM	AID CATEGORY													
	GENERAL ED			SPECIAL ED			LOW INCOME			LEP			FUNCTIONAL	
	Folded In	Outside the Model		Folded In	Outside the Model		Folded In	Outside the Model		Folded In	Outside the Model		Outside the Model	
	State Aid	State Aid	Federal Aid	State Aid	State Aid	Federal Aid	State Aid	State Aid	Federal Aid	State Aid	State Aid	Federal Aid	State Aid	Federal Aid
Current Expenses / Foundation	\$1,681,695													
Teachers' Ret/Pens		\$328,222												
Cancer Initiative		323												
Out-of-County Living		6,000												
Schools Near County Lines		63												
Gifted & Talented	5,675													
Summer Center Program		460												
Destination ImagiNation		75												
Advanced Placement Test Fees			\$297											
Environmental Education	68													
Md Student Serv Alliance	246													
Serve America			330											
Ctr. Ed. Progress (Caroline)		210												
Pre K to 3rd Grade Program	19,000													
Allegany Co. Resource Def	1,000													
Career and Technology Education			10,237											
Teacher Mentoring	15,900													
School Libr. Media Incent.	3,000													
Class Size Initiative	17,320		19,000											
Math Science Initiatives		883												
MD Technology Academy		1,930												
Tech Literacy Challenge		120												
Staff Development Center		668												
High School Assessments	350													
Gov Teacher Salary Challenge	85,221													
Special Education Formula				\$81,253										
Non-Public Placements					\$104,381									
Federal Special Education Funding						\$160,844								
Dropout Prevention									\$9,847					
Homeless Children and Youth									299					
Safe and Drug Free Schools									4,806					
Foster Care Assessment							\$500							
Disruptive Youth (ARMS)								\$1,602						
East Coast Migrant Head Start								182						
Educationally Deprived Children									109,883					
Title 6									5,200					
Rural Schools Performance							45							
Rural School Nurses							296							
Magnet Schools							14,100							
Goals 2000									6,500					
Comprehensive School Reform									840					
Potomac H.S. (PG County)							100							
Reading Excellence									13,489					
Gear Up									1,600					
Md. Fwd Summer Prog														
Baltimore City P'shp Funding							70,465		150					
Targeted Impr. Grants							21,991							
Comp. Ed. / At Risk Formula							117,124							
Targeted Poverty I Grants							8,000							
Add'l Poverty Gts - TPil							18,163							
Effective Schools Program							2,000							
Integrated Student Sup Serv							1,000							
Provisional / Teach. Devel.							3,000							
Teacher Develop. Grants							5,760							
Extended Elementary Ed. Pg.							19,263							
Eisenhower Math/Science									4,000					
Technology Literacy Challenge									5,510					
Challenge Grants									6,789					
Reconstitution									9,797					
Pilot Summer Program							520							
Balto. City Teacher Cert.							2,000							
Judy Hoyer Early C C& Ed Enh									11,625					
Academic Intervention							19,100							
Language Assistance												\$1,970		
Limited English Proficiency Grants										\$30,058				
R.C. Byrd Scholarship													\$699	
Career and Technology Education													4,000	
Food Services Program													\$6,265	143,568
Student Transportation													133,338	
Education Modernization Initiative													13,286	
School Performance Recognition													2,750	
Quality Teacher Incentives													7,830	
TOTAL	\$1,829,476	\$338,954	\$29,864	\$81,253	\$104,381	\$160,844	\$303,427	\$30,145	\$161,974	\$30,058	\$0	\$1,970	\$163,469	\$148,267

A&M base cost figure derived from the Professional Judgement Study. Although the costs identified in the MAP and A&M studies are hard to compare, the base funding level recommended by the A&M Successful Schools Study appears to be in line with the adequacy costs associated with MAP's more expensive panels. Third, the successful school districts approach was used in Ohio to develop a base per pupil cost and was recently determined by Ohio's Supreme Court to be a rational way to identify an adequate base cost.

(C) Students with Special Needs

Under the adequacy theory adopted by the Commission, the base cost figure established by the Successful Schools Study is the cost to provide educational services to students without special needs. The Commission believes that additional funds are needed to provide educational services to three groups of students with special needs: special education students, economically disadvantaged students (as measured by eligibility for free and reduced price meals), and students with limited English proficiency. The Commission also believes that there should be a rational link between the estimated funding needed to educate special needs students and the distribution of State aid. The Professional Judgement Study conducted by A&M calculated pupil weights for students with special needs. The weights relate the cost of adequately educating special needs students to the base cost required to educate students without special needs. The Professional Judgement Study calculated weights of 1.17 for special education students, 1.39 for students eligible for free and reduced price meals, and 1.00 for LEP students.³¹ Following a special needs overlap analysis,³² the weight for students eligible for free and reduced price meals was reduced to 1.10.

As discussed in Section 2.2 of this report, the proportion of students eligible for free and reduced price meals is a strong and consistent indicator of the level of performance in schools and school systems. However, many economically disadvantaged students do well in school and do not require academic intervention to achieve performance standards. Likewise, many students who are not economically disadvantaged need intervention. All students who need additional help should be able to receive intervention services, regardless of their economic status.

The model recommended by the Commission uses three separate categorical programs to fund the three populations of special needs students. The amount of funding

³¹These weights are in addition to the base funding level that every student receives. Thus, for example, the amount needed to adequately educate a special education student would include the base cost plus 1.17 times the base cost, for a total cost that is equal to 2.17 times the base cost.

³²See page 17 of this report for additional detail on the overlap analysis.

for these programs is based on the accepted pupil weights -- i.e., 1.17 for special education students, 1.10 for students from low-income backgrounds, and 1.00 for students with limited English proficiency. To determine the funding level for the three special population categorical programs, these weights are adjusted downward to reflect State and federal aid programs that continue under the Commission's proposal and contribute to adequacy funding. The adjusted weights are 0.74 for special education students, 0.97 for low-income students, and 0.99 for LEP students.

The adjustments to the weights were based on the amount of funding provided in the fiscal 2002 State budget for programs that will continue outside the three new categorical formulas for special needs students. It is assumed within the Commission's proposal that this "outside" funding would continue to contribute to adequacy in roughly the same proportion that it does now. Over time, however, the adjusted formula weights may need to be re-calibrated based on more recent outside funding data. The Commission recommends that the weights used in the special needs formulas be reexamined after the Commission's proposal is fully implemented and be re-calibrated (i.e., adjusted upwards or downwards) as necessary to maintain the integrity of the per pupil weights.

(D) State/Local Share

In Maryland, total spending for public schools is currently shared between the State, local, and federal governments as follows: 41 percent State; 54 percent local; and 5 percent federal. Since a significant share of State and federal spending is targeted on the basis of local wealth or the number of special needs students, these percentages vary significantly among jurisdictions. For example, the State share of funding in particular jurisdictions ranges from a low of 17 percent to a high of 63 percent. The Commission believes that the State should move toward providing a higher overall State share of education funding. Under the model recommended by the Commission, initial projections indicate that the State share of education funding would increase substantially, from 41 percent to 49 percent.³³

The Commission's proposal includes a change in the State share for the foundation program. Under the existing Basic Current Expense formula, the State pays 55 percent of the first \$624 per pupil (i.e., the first tier amount) and 50 percent of amounts above \$624 per pupil. Under the Commission's proposal, when fully phased

³³For the purpose of calculating these projections, growth in local aid was estimated by increasing the fiscal 2002 per pupil local appropriations by the average annual increase in local per pupil aid from fiscal 1997 to 2000, multiplied by projected local enrollments. Growth in federal aid was estimated by increasing budgeted fiscal 2002 federal revenues by the projected Implicit Price Deflator for State and Local Government Expenditures. Estimates of federal aid do not reflect increases resulting from the 2002 re-authorization of the Elementary and Secondary Education Act.

in, the State will pay 50 percent of the fiscal 2002 foundation level of \$4,124 per pupil. In addition, enhancements to the foundation level beyond the fiscal 2002 level of \$4,124 would be shared by the State at 45 percent.

The categorical funding formulas proposed by the Commission for students with special needs assume an overall State share of 50 percent. The slightly higher State share for categorical programs is proposed by the Commission because the presence of special needs students affects school systems unequally. Consistent with its guiding principles, the Commission believes the State's school finance system should help to mitigate these inequities.

(E) Phase-in Period

The Commission recognizes that the funding enhancements provided under the school finance model recommended by the Commission must be phased in over several years. The Commission recommends that the enhancements be phased in over a five-year period, beginning in fiscal 2003. In each year of the phase-in approach recommended by the Commission, every local school system would receive more State funds than it does under current law.

(F) Wealth Equalization of Categorical Funding

In order to ensure that all jurisdictions move towards adequate education funding regardless of their ability to raise revenues from local sources, the Commission believes that most State funding should be distributed in a way that is inversely related to the wealth of a jurisdiction -- i.e., wealth equalized. Under the Commission's proposal, there are four exceptions to this general rule: (1) retirement funding (totaling \$328 million in fiscal 2002) is maintained as a separate, State-funded, categorical program that is not wealth equalized; (2) funding for 16 other existing State education programs (totaling \$145 million in fiscal 2002) that continue outside of the four proposed State aid formulas is not wealth equalized; (3) a base funding level for LEP students equal to the current per pupil LEP funding level (\$1,350 per pupil) is not wealth equalized (but State funding above this amount is wealth equalized); and (4) enhanced funding provided for student transportation, along with funding for other services not measured in the adequacy studies, is not wealth equalized. In total, an estimated 80 percent of State education aid that would be distributed under the Commission's proposal would be wealth equalized by fiscal 2007.

(G) Full-day Kindergarten

In recognition of the developing body of research that shows that early educational experiences have a dramatic and long-term impact on a child's cognitive development, the school finance model recommended by the Commission counts all students enrolled in kindergarten as 1.0 full-time equivalent. This element of the model is intended to provide school systems with additional funding to support full-day kindergarten programs for all eligible students. A detailed discussion of the Commission's full-day kindergarten proposal is included in Section 3.6 of this chapter.

(H) Gifted and Talented Students

The Commission believes that additional funding should be available to support programs that serve gifted and talented students. Funding sufficient to support this population is embedded in the foundation amount proposed by the Commission. The Commission supports the idea that local jurisdictions should fund gifted and talented programs at a level necessary to meet standards developed by MSDE.

(I) Cost of Education

The Commission believes that education funding should be adjusted to reflect regional differences in the cost of education that are due to factors outside the control of the local jurisdictions. The school finance model recommended by the Commission would use a cost of education index beginning in fiscal 2005 to adjust the State share of funding distributed under the foundation formula. The Commission recommends that the State contract with a private entity to conduct a study to: (1) develop a Maryland-specific geographic cost of education index to be implemented no later than fiscal 2005; and (2) provide recommendations as to how the index should be used to adjust education funding (e.g., upward and downward adjustments or only upward adjustments). In this report, the GCEI developed for the National Center for Education Statistics is used to estimate the impact of a cost of education index on the distribution of State aid. For the purpose of calculating aid projections, the model recommended by the Commission assumes that the GCEI would only be used to make upward adjustments to education funding. However, the Commission believes that a final decision on this issue should be delayed until the study recommended by the Commission is completed.

(J) Guaranteed Tax Base

The Commission believes that Maryland's school finance system should include a component that recognizes and rewards the education funding effort made by

jurisdictions with below-average wealth. The Commission's proposal, therefore, includes a Guaranteed Tax Base (GTB) program that provides additional State aid based on local wealth and education effort. Under the GTB, each school system would receive funds equivalent to the jurisdiction's supplemental education effort (local education funding above the match required by the Basic Current Expense formula divided by the local wealth base) multiplied by the difference between the guaranteed tax base level, which is 80 percent of the statewide wealth per pupil under the Commission's proposal, and the local appropriation. Thus, a jurisdiction with less than 80 percent of the statewide wealth per pupil that appropriates more for education than is required by the Basic Current Expense formula would receive funding under the GTB program. The amount of additional State aid equals the difference between the jurisdiction's actual supplemental education funding and what the supplemental education funding would be if the county made the same effort and had the tax base that is "guaranteed." The Commission's proposal limits the State aid that a jurisdiction may receive under the GTB program to no more than 20 percent of the per pupil foundation level.

(K) Transportation

The Commission believes that the State should increase funding for student transportation. A report presented to the Commission during the 2000 interim indicated that between fiscal 1981 and 1998 total expenditures for student transportation increased by 180 percent.³⁴ During this same period, State expenditures for student transportation increased by only 35 percent. The percentage of total student transportation costs funded by the State peaked at about 90 percent in 1984 and declined gradually in each subsequent year. In fiscal 1998, the State funded about 36 percent of total student transportation costs.

Transportation of students with special needs is particularly costly, as evidenced by the difference in miles traveled by regular students and disabled students who need special transportation services. Statewide, the average annual miles traveled per disabled student (1,318) is more than ten times the average annual miles traveled per regular student (127). Disabled students who need special transportation services make up only 4 percent of the total number of students who are eligible for transportation services but account for 33 percent of the total miles that students are transported. As a means of addressing this problem, the Commission recommends that the method of calculating the State's supplemental aid for transporting disabled students be modified to provide a \$1,000 grant for each disabled student who requires special transportation services. Under this proposal, the current \$500 per student grant amount is increased to \$1,000, and the current offset for the number of disabled students transported during the 1980-81 school year is eliminated.

³⁴See Document 17 of the Technical Supplement to the Commission's Interim Report (December 2000).

Increases to student enrollment have also driven the costs of student transportation upwards. In 1996, the student transportation funding formula was amended to provide additional transportation aid to school systems with increasing enrollments. From 1981, when the current formula was established, to 1996, no enrollment adjustments were made to transportation funding. The Commission, therefore, recommends that the student transportation formula be enhanced to account for increases in full-time equivalent (FTE) enrollment from September 1980 to September 1995. Under the proposal, 15 school systems that experienced aggregate increases in enrollment during this period would receive an addition to their base transportation grants equal to their aggregate FTE enrollment increases multiplied by the fiscal 2002 statewide average per pupil base transportation grant. This proposal uses a methodology similar to the current law enrollment adjustment that was adopted in 1996.

(L) Revenue Sources

Based on initial projections, the school finance model recommended by the Commission requires that, by fiscal 2007, State funding increase by approximately \$1.1 billion more than it would be required to increase under current law. The Commission recognizes that the declining economy is having an adverse impact on the State's fiscal condition and that the fiscal outlook for the near future is not positive. However, the Commission believes that implementing the proposed recommendations to achieve adequate funding of Maryland's public schools is of critical importance and must be undertaken regardless of the fiscal condition of the State. Other than debt service on its bonds, public education is the only service that the State has a constitutional obligation to provide. Therefore, the Commission urges the Governor and General Assembly to reprioritize appropriations in the State budget as necessary to begin implementing the Commission's recommendations in fiscal 2003. In future years, the Commission realizes that it is unlikely that existing revenue sources can support the increasing cost of implementing its recommendations. Therefore, the Commission recommends that the Governor and General Assembly consider establishing new revenue sources to provide additional funds to assist in implementing the Commission's recommendations in subsequent years.

3.3 Fiscal Impact of the Commission's Proposal

To test the feasibility and ramifications of certain school finance models, it was necessary for the Commission to use estimates and projections of future enrollments, wealth bases, inflation rates, and State education aid under current law. The estimates are based on data culled from a number of sources, including the Department of Planning, the Department of Legislative Services, and MSDE. Many of the projections are based on recent trends extended outwards through the five-year implementation period proposed by the Commission. It is important to note that, although the State aid

estimates shown in the exhibits discussed below are based on the best available trend data, they are only forecasts of actual State aid under the Commission's proposal.³⁵

Major changes in current trends, such as sudden departures from projected trends for local wealth bases or proportions of students with special needs, would result in different State aid amounts and distributions. However, the Commission strongly believes that, as local demographics change, the State's education finance system should naturally adjust itself to account for the changes. For example, one trend used to estimate future State aid is a continued reduction in student enrollment in some school systems. If enrollment stabilizes in one of these schools systems during implementation of the Commission's proposal, the school system would receive more funding under the proposal than estimated in the exhibits discussed below. The Commission is confident that, despite the problems inherent in making decisions based on future projections, its proposal can effectively meet the demands of changing landscapes while strengthening all school systems.

(A) Total Education Funding

An overview of the characteristics of the school finance model recommended by the Commission is shown in **Exhibit 15**. The exhibit shows estimates of total State funding for fiscal 2002 through 2007 and estimated increases in State education funding between fiscal 2003 and 2007, above those that would occur if current law were not changed. Under the model, State funding increases by \$1.8 billion between fiscal 2002 and 2007, from a total of \$2.9 billion in fiscal 2002 to a total of \$4.7 billion in fiscal 2007. Approximately \$700 million of this \$1.8 billion increase would occur under the current law governing Maryland's school finance system. Thus, the new model calls for an increase in funding of about \$1.1 billion by fiscal 2007.

The exhibit also shows that, by fiscal 2007: (1) 28 percent of State aid would be targeted to special populations, 67 percent would be allocated for general education aid, and 5 percent would be allocated for other functions (e.g., food services, transportation, school performance recognition awards, quality teacher incentives, and the education modernization initiative); (2) 80 percent of State aid would be wealth equalized; and (3) the State would provide approximately 49 percent of total education funding. These figures can be compared to analogous figures regarding current education funding in **Exhibit 16**. As shown in Exhibit 16, the Commission's proposal: (1) targets a greater proportion of State aid based on special needs populations; (2) wealth equalizes a greater

³⁵For example, final enrollment data used to determine fiscal 2003 State aid will not be available until January 2002. The estimates shown in the exhibits in this chapter will be updated when all the necessary data become available.

Exhibit 15 The Commission Recommendation

Current Expense

Adjusted successful schools foundation level phased-in
50% State share for first \$4,124
45% State share for growth in foundation level
1.0 FTE for kindergarten students phased-in

Retirement

Separate State-paid program

Special Student Populations

Spec Ed: 1.17 overall weight
50% State share of adjusted weight phased-in
Wealth equalized
FRPM: 1.10 overall weight
50% State share of adjusted weight phased-in
Wealth equalized
LEP: 1.00 overall weight
50% State share of adjusted weight phased-in
Per pupil funding increases wealth equalized

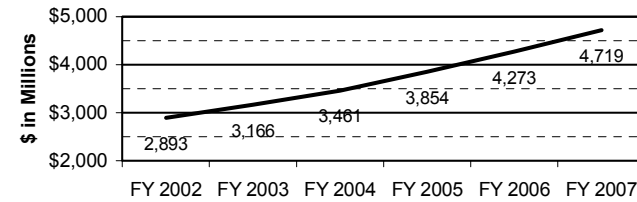
Additional Programs and Adjustments

Cost of education adjustment beginning in FY 2005
80% guaranteed tax base phased-in

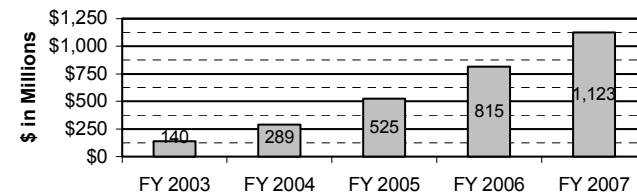
Transportation

\$1,000 per disabled rider phased-in
Add-on for 1980-1995 enrollment increases in FY 2003

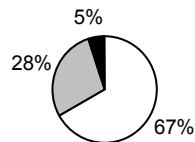
Estimated State Education Aid



Estimated Increases Over Current Law

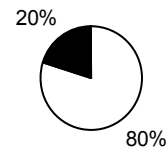


State Aid Targeting
FY 2007 Estimate



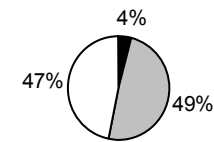
□ General Ed □ Special Populations ■ Other

State Aid Wealth Equalization
FY 2007 Estimate



□ Equalized ■ Not Equalized

Federal-State-Local Shares
FY 2007 Estimate

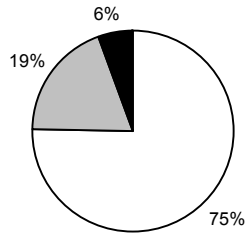


■ Federal □ State □ Local

Exhibit 16 Education Funding Characteristics, Fiscal 2002 and 2007

Fiscal 2002

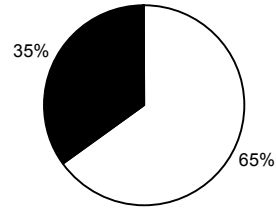
State Aid Targeting



□ General Ed □ Special Populations ■ Functions

(State Aid = 2.9 billion)

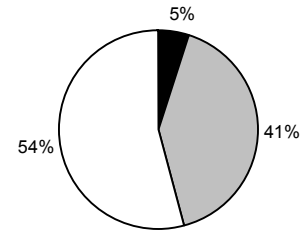
State Aid Wealth Equalization



□ Equalized ■ Not Equalized

(State Aid = 2.9 billion)

Federal¹-State-Local Shares

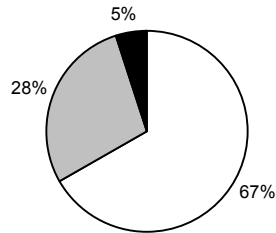


■ Federal □ State □ Local

(Total Education Aid = 7.1 billion)

Fiscal 2007, under the Commission Recommendation

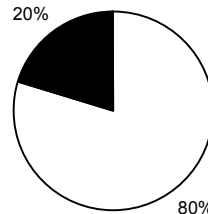
State Aid Targeting



□ General Ed □ Special Populations ■ Other

(Est. State Aid = \$4.7 billion)

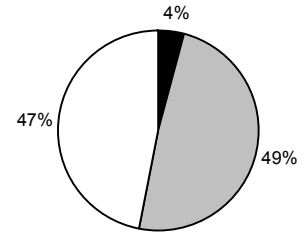
State Aid Wealth Equalization



□ Equalized ■ Not Equalized

(Est. State Aid = \$4.7 billion)

Federal¹-State-Local Shares



■ Federal □ State □ Local

(Est. Total Education Aid = \$9.7 billion)

¹ Not including federal food service funding.

proportion of State aid; and (3) increases the share of education funding provided by the State. The figures in **Exhibit 17** reflect the total estimated State aid that would be provided under the model in fiscal 2003 through 2007 for general education, special education, low-income students, students with limited English proficiency, and other functions.

(B) State Aid Provided to Each Local School System

The estimated State aid that would be provided to each local school system in fiscal 2003 through 2007 is shown in **Exhibit 18**. The exhibit includes “total estimated State aid” that would be provided to each local school system under the model; “change from current law,” which reflects the amount of State aid that each local school system would receive above the amount the school system would receive under current law; “change from prior year,” which displays the annual estimated increases in total State aid for each school system; and “change FY02 to FY07,” which displays the total estimated change from fiscal 2002 to 2007. Total aid, displayed in the exhibit’s first set of columns, shows an upward trend in State education funding from fiscal 2002, when State aid for education is \$2.9 billion, to 2007, when State aid under the Commission’s model is estimated at \$4.7 billion. The second set of columns is significant because it shows estimates of the new funding local school systems would receive above what they would receive under the current school finance system. The Commission recognized the importance of increased funding for all school systems and therefore designed the proposed phase-in approach so that no school system would receive less funding than it would receive under the present system at any time during the five-year phase-in. It is also important to understand, however, that these columns are heavily influenced by the existing school finance system, including any inequities present in the existing system. A review of the third set of columns, change from prior year, shows that the school finance model recommended by the Commission is “back-loaded” because increases in total funding grow larger each year. On a statewide level, the annual increase in total funding grows from a low of \$274 million in fiscal 2003 to a high of \$446 million in fiscal 2007. These columns are not influenced by inequities in current law and therefore provide a different view of State aid increases than is provided in the second set of columns. Finally, the last two columns show the estimated increases in State aid during the five-year implementation period, in both total dollars and percent. Statewide, funding for education would increase by 63 percent, with increases for individual school systems ranging from 31 percent to 90 percent.

The analysis of the Commission’s model continues with **Exhibit 19**, which displays estimated State aid on a per pupil basis. Comparing the figures in this exhibit to the figures in Exhibit 18 shows that some school systems that would receive relatively small increases in total funding under the model would receive significant increases in per pupil funding. For example, Exhibit 18 shows that, in fiscal 2007 Caroline County

Exhibit 17
The Commission Recommendation
Estimated State Aid by Aid Category
FY 2003 to 2007
(\$ in Millions)

<u>Aid Category</u>	<u>Actual FY 2002</u>	<u>Estimated Under Commission Recommendation</u>					<u>Change FY02-07</u>
	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>		
General Education	\$2,168.1	\$2,290.9	\$2,455.8	\$2,701.6	\$2,914.7	\$3,141.5	\$973.4
Foundation	1,681.2	1,849.4	2,000.9	2,226.4	2,419.9	2,599.8	918.6
Retirement	328.2	351.5	369.8	395.4	422.3	455.0	126.8
Other Programs	158.6	90.0	85.1	79.8	72.4	86.7	-71.9
Special Education	\$185.6	\$209.5	\$271.0	\$320.9	\$378.2	\$439.0	\$253.3
Formula	81.3	92.5	140.1	174.2	214.0	255.0	173.8
Nonpublic Placements	104.4	116.9	130.9	146.6	164.2	184.0	79.6
At Risk	\$332.8	\$429.4	\$481.4	\$556.6	\$679.7	\$809.4	\$476.6
Formula	0.0	368.8	424.3	527.7	650.7	780.5	780.5
Other Programs	332.8	60.7	57.1	28.9	28.9	28.9	-303.9
Limited English Proficient	\$30.1	\$32.9	\$40.3	\$53.4	\$70.1	\$89.4	\$59.3
Other Functions	\$176.1	\$203.5	\$212.6	\$221.6	\$230.4	\$239.6	\$63.5
Transportation	133.3	159.9	168.6	177.4	186.1	195.1	61.8
Other Programs	42.8	43.7	44.0	44.2	44.3	44.5	1.7
TOTAL	\$2,892.7	\$3,166.2	\$3,461.1	\$3,854.1	\$4,273.1	\$4,718.8	\$1,826.2
Current Law	2,892.7	3,026.5	3,172.0	3,328.9	3,458.5	3,595.6	702.9
Difference	\$0.0	\$139.7	\$289.1	\$525.2	\$814.6	\$1,123.3	
Percent of State Aid Targeted to:	Actual FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	
General Ed	75%	72%	71%	70%	68%	67%	
Special Populations	19%	21%	23%	24%	26%	28%	
Special Education	6%	7%	8%	8%	9%	9%	
At Risk	12%	14%	14%	14%	16%	17%	
LEP	1%	1%	1%	1%	2%	2%	
Other Functions	6%	6%	6%	6%	5%	5%	

Exhibit 18
The Commission Recommendation
Estimated Total State Education Aid
FY 2003 to 2007
(\$ in Millions)

County	Total Estimated State Aid						Change from Current Law					Change from Prior Year					Change FY02- 07	
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	Dollars	Percent
Allegany	\$48.1	\$53.4	\$59.3	\$66.6	\$74.9	\$83.8	\$3.7	\$7.5	\$12.7	\$19.3	\$26.3	\$5.2	\$5.9	\$7.3	\$8.4	\$8.9	\$35.7	74.1%
Anne Arundel	202.5	212.9	226.5	246.8	266.7	285.2	3.8	10.1	21.9	33.4	44.7	10.4	13.6	20.3	19.9	18.6	82.7	40.8%
Baltimore City	587.0	639.3	690.6	758.1	850.6	957.7	37.1	72.7	118.4	192.1	273.9	52.2	51.3	67.5	92.5	107.1	370.7	63.1%
Baltimore	306.3	329.0	357.2	395.3	433.7	472.7	8.0	20.4	41.7	66.0	91.3	22.7	28.2	38.1	38.4	39.0	166.5	54.3%
Calvert	48.9	54.2	59.4	65.4	70.2	74.5	2.5	5.0	8.3	12.0	15.1	5.3	5.2	6.0	4.9	4.3	25.6	52.4%
Caroline	24.4	28.3	31.2	34.5	38.4	42.4	3.0	4.9	7.4	10.4	13.6	3.8	2.9	3.3	3.9	4.0	18.0	73.6%
Carroll	88.7	96.3	104.3	113.7	123.3	132.5	3.6	7.5	12.0	18.2	24.1	7.6	8.1	9.4	9.6	9.1	43.8	49.3%
Cecil	56.9	61.8	67.5	73.9	81.3	88.6	2.5	5.6	9.3	14.4	19.5	4.9	5.7	6.4	7.4	7.3	31.7	55.7%
Charles	81.1	89.8	99.1	109.9	121.7	135.2	4.2	8.2	13.5	20.9	29.0	8.6	9.3	10.8	11.9	13.5	54.1	66.6%
Dorchester	20.1	21.6	23.8	25.9	27.7	30.2	0.9	1.9	3.4	5.0	6.8	1.5	2.1	2.1	1.8	2.5	10.1	50.1%
Frederick	113.7	125.2	137.6	153.1	169.0	185.8	5.8	11.3	19.3	29.2	39.3	11.6	12.3	15.6	15.9	16.7	72.1	63.5%
Garrett	19.8	20.9	22.4	24.3	26.6	28.7	0.6	1.4	2.5	4.0	5.5	1.1	1.5	1.9	2.2	2.2	8.9	45.1%
Harford	127.6	138.9	150.6	165.8	180.2	194.6	6.0	12.3	21.0	31.2	41.2	11.3	11.7	15.2	14.5	14.4	67.1	52.6%
Howard	115.9	127.7	139.3	156.4	170.6	184.7	4.4	8.2	17.9	25.5	33.3	11.7	11.6	17.1	14.2	14.1	68.8	59.3%
Kent	9.1	9.3	9.9	10.4	11.3	12.0	0.1	0.3	0.6	1.2	1.7	0.2	0.6	0.5	0.9	0.7	2.9	31.4%
Montgomery	271.4	295.4	323.4	365.3	401.6	441.2	5.0	12.7	33.9	52.4	74.0	24.0	28.0	41.9	36.3	39.6	169.9	62.6%
Prince George's	516.9	591.5	665.2	768.8	873.5	982.8	41.5	80.7	148.6	225.1	305.8	74.6	73.8	103.6	104.7	109.3	465.8	90.1%
Queen Anne's	21.2	22.2	24.2	26.1	28.1	30.6	0.2	1.1	2.0	3.3	4.6	1.1	2.0	1.9	2.1	2.5	9.4	44.6%
St. Mary's	52.1	55.0	59.4	64.0	69.8	74.4	1.1	3.2	5.7	9.4	12.8	3.0	4.3	4.6	5.8	4.6	22.3	42.9%
Somerset	14.0	15.8	17.7	19.9	22.5	25.4	1.4	2.7	4.4	6.6	9.0	1.8	1.9	2.2	2.6	2.9	11.4	81.3%
Talbot	7.2	8.1	8.4	8.8	9.2	10.1	0.8	1.3	1.9	2.6	3.4	1.0	0.2	0.4	0.4	0.9	2.9	40.8%
Washington	69.9	75.6	82.0	90.1	98.8	107.9	3.4	6.8	11.3	17.4	23.5	5.7	6.4	8.0	8.8	9.0	38.0	54.4%
Wicomico	54.1	60.2	66.9	74.7	84.7	97.3	4.1	8.0	13.4	20.8	30.1	6.1	6.7	7.8	10.0	12.6	43.2	79.9%
Worcester	10.8	12.3	13.1	14.2	15.5	17.0	1.1	1.3	1.8	1.9	2.7	1.6	0.8	1.0	1.3	1.5	6.3	58.1%
Unallocated	25.0	21.5	22.2	22.3	22.9	23.5	(5.2)	(5.9)	(7.4)	(7.7)	(8.0)	(3.5)	0.7	0.2	0.6	0.6	(1.5)	(6.0%)
Total	\$2,892.7	\$3,166.2	\$3,461.1	\$3,854.1	\$4,273.1	\$4,718.8	\$139.7	\$289.1	\$525.2	\$814.6	\$1,123.3	\$273.5	\$294.9	\$393.0	\$419.0	\$445.8	\$1,826.2	63.1%

Commission on Education Finance, Equity, and Excellence

Exhibit 19
The Commission Recommendation
Estimated Total Per Pupil State Education Aid
FY 2003 to 2007

County	Total Estimated Per Pupil State Aid						Change from Current Law					Change from Prior Year					Change FY02-07	
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	Dollars	Percent
Allegany	\$4,738	\$5,306	\$5,960	\$6,779	\$7,727	\$8,731	\$363	\$756	\$1,293	\$1,988	\$2,743	568	654	819	948	1,004	\$3,993	84.3%
Anne Arundel	2,757	2,899	3,097	3,377	3,645	3,898	52	139	299	457	610	142	197	281	267	253	1,141	41.4%
Baltimore City	6,111	6,850	7,653	8,604	9,879	11,229	397	805	1,344	2,231	3,212	739	803	952	1,275	1,350	5,117	83.7%
Baltimore	2,957	3,169	3,445	3,818	4,205	4,598	77	197	403	640	888	211	276	373	387	393	1,641	55.5%
Calvert	3,086	3,345	3,616	3,936	4,235	4,494	157	305	500	721	912	259	270	320	299	259	1,408	45.6%
Caroline	4,568	5,275	5,825	6,507	7,260	8,025	555	912	1,389	1,969	2,567	707	550	682	753	765	3,457	75.7%
Carroll	3,246	3,489	3,769	4,082	4,426	4,748	131	272	430	654	864	243	281	313	344	322	1,502	46.3%
Cecil	3,694	3,981	4,331	4,726	5,181	5,629	162	360	593	915	1,238	286	350	395	456	448	1,935	52.4%
Charles	3,573	3,895	4,235	4,640	5,099	5,573	180	349	571	877	1,194	322	340	405	458	474	2,000	56.0%
Dorchester	4,322	4,684	5,114	5,645	6,211	6,818	196	420	735	1,118	1,544	362	430	532	566	607	2,496	57.8%
Frederick	3,143	3,403	3,680	4,029	4,392	4,747	157	302	509	758	1,004	260	277	349	362	355	1,603	51.0%
Garrett	4,123	4,392	4,726	5,145	5,631	6,100	128	290	524	855	1,178	269	334	419	486	469	1,977	47.9%
Harford	3,306	3,566	3,856	4,218	4,588	4,942	155	314	533	795	1,048	260	290	362	370	354	1,637	49.5%
Howard	2,614	2,815	3,016	3,340	3,596	3,844	98	178	382	537	692	200	202	323	256	248	1,229	47.0%
Kent	3,417	3,524	3,745	3,987	4,310	4,613	21	118	247	455	665	108	221	242	323	302	1,196	35.0%
Montgomery	2,063	2,219	2,406	2,695	2,948	3,217	38	95	250	385	540	156	187	289	253	270	1,155	56.0%
Prince George's	3,977	4,483	4,999	5,744	6,530	7,345	314	606	1,110	1,682	2,286	506	516	744	786	815	3,368	84.7%
Queen Anne's	3,062	3,185	3,420	3,662	3,934	4,213	33	150	275	459	636	123	236	241	272	279	1,151	37.6%
St. Mary's	3,573	3,761	4,039	4,348	4,714	5,042	78	220	389	637	867	187	278	309	366	328	1,468	41.1%
Somerset	4,818	5,554	6,218	7,109	8,126	9,239	506	936	1,572	2,369	3,269	736	664	891	1,017	1,113	4,421	91.8%
Talbot	1,648	1,862	1,950	2,066	2,210	2,404	182	300	438	633	806	214	88	116	144	194	756	45.9%
Washington	3,597	3,899	4,232	4,633	5,091	5,541	176	351	581	895	1,208	302	332	402	457	450	1,944	54.0%
Wicomico	3,988	4,454	4,938	5,546	6,280	7,125	306	591	991	1,544	2,204	466	484	608	734	845	3,138	78.7%
Worcester	1,614	1,859	1,977	2,139	2,302	2,522	169	192	268	277	402	244	118	162	163	220	908	56.2%
Unallocated	30	26	27	27	27	28	(6)	(7)	(9)	(9)	(10)	(4)	1	0	1	1	(2)	(6.8%)
Total	\$3,481	\$3,792	\$4,140	\$4,602	\$5,105	\$5,626	\$167	\$346	\$627	\$973	\$1,339	\$311	\$348	\$462	\$503	\$521	\$2,145	61.6%

would receive \$13.6 million more under the model than under current law. In contrast, Prince George's County would receive \$305.8 million more under the model than under current law. However, Exhibit 19 shows that Caroline County's per pupil increase of \$2,567 is higher than Prince George's County's per pupil increase of \$2,286. Examining the final column in the exhibit reveals that, during the proposed implementation period, 16 local school systems receive per pupil State aid increases ranging from 40 to 60 percent. Two school systems receive per pupil aid increases slightly below 40 percent, and six school systems where low wealth and high needs intersect receive per pupil increases of greater than 75 percent.

The annual percent increases in State aid under the Commission's proposal are shown in **Exhibit 20**. The exhibit shows that the Commission's proposal would result in statewide aid increases of approximately 10 percent annually. The year-to-year increases would also be relatively stable for most local school systems. The second set of columns on Exhibit 20 displays annual increases on a per pupil basis. This set of columns shows a similar pattern, with statewide year-to-year per pupil aid increases ranging from 9 to 11 percent.

(C) Adequacy Analyses

To demonstrate that State aid is targeted appropriately under its proposal, the Commission estimated fiscal 2007 adequacy targets for each local school system and compared the results to projected revenues from State, local, and federal sources. **Exhibit 21A** compares school revenues in fiscal 2002³⁶ to revenues that would be needed in fiscal 2007 to meet the estimated adequacy needs of each school system. The exhibit shows that there is a statewide gap of nearly \$2.1 billion between current funding and the amount of funding needed to reach adequacy in fiscal 2007. On a county level, the exhibit shows that all school systems will require some additional resources to reach adequacy by fiscal 2007. However, the needs vary significantly by school system, from a low of \$6.4 million in Kent County to a high of \$561 million in Prince George's County. When estimated growth in State aid under the Commission's proposal is added to estimated growth in federal aid and local appropriations, the remaining statewide gap shrinks to \$113 million and only eight school systems have projected fiscal 2007

³⁶The costs that were measured in the adequacy studies did not include the costs associated with the following functions: transportation, debt service, food services, teacher quality incentives, school performance recognition awards, and the education modernization initiative. Therefore, when determining whether the State or particular school systems have reached adequacy, funding designated for these programs must be deducted from total funding. In Exhibits 21A and 21B, the figures reflect the adjusted estimate of education funding after deducting the funds associated with functions not included in the adequacy studies.

Exhibit 20
The Commission Recommendation
Percent Increase in State Education Aid Over Prior Year
FY 2003 to 2007

<u>County</u>	<u>Percent Increase in Total Dollars</u>					<u>Percent Increase in Per Pupil Dollars</u>				
	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Allegany	10.9	11.1	12.3	12.6	11.8	12.0	12.3	13.7	14.0	13.0
Anne Arundel	5.1	6.4	9.0	8.1	7.0	5.2	6.8	9.1	7.9	6.9
Baltimore City	8.9	8.0	9.8	12.2	12.6	12.1	11.7	12.4	14.8	13.7
Baltimore	7.4	8.6	10.7	9.7	9.0	7.1	8.7	10.8	10.1	9.3
Calvert	10.8	9.6	10.1	7.4	6.1	8.4	8.1	8.9	7.6	6.1
Caroline	15.7	10.3	10.6	11.4	10.5	15.5	10.4	11.7	11.6	10.5
Carroll	8.5	8.4	9.0	8.5	7.4	7.5	8.0	8.3	8.4	7.3
Cecil	8.5	9.2	9.5	10.0	9.0	7.8	8.8	9.1	9.6	8.6
Charles	10.6	10.4	10.9	10.8	11.1	9.0	8.7	9.6	9.9	9.3
Dorchester	7.4	9.9	9.0	7.0	9.1	8.4	9.2	10.4	10.0	9.8
Frederick	10.2	9.8	11.3	10.4	9.9	8.3	8.1	9.5	9.0	8.1
Garrett	5.8	6.9	8.6	9.2	8.1	6.5	7.6	8.9	9.4	8.3
Harford	8.9	8.4	10.1	8.7	8.0	7.9	8.1	9.4	8.8	7.7
Howard	10.1	9.1	12.3	9.1	8.3	7.7	7.2	10.7	7.7	6.9
Kent	2.3	6.3	4.9	8.5	6.2	3.1	6.3	6.5	8.1	7.0
Montgomery	8.8	9.5	13.0	9.9	9.9	7.6	8.4	12.0	9.4	9.1
Prince George's	14.4	12.5	15.6	13.6	12.5	12.7	11.5	14.9	13.7	12.5
Queen Anne's	5.0	8.9	7.7	7.9	8.8	4.0	7.4	7.0	7.4	7.1
St. Mary's	5.7	7.9	7.8	9.1	6.6	5.2	7.4	7.7	8.4	7.0
Somerset	12.8	12.0	12.4	13.1	12.9	15.3	12.0	14.3	14.3	13.7
Talbot	13.5	2.9	4.8	5.1	9.5	13.0	4.7	6.0	7.0	8.8
Washington	8.2	8.5	9.8	9.7	9.1	8.4	8.5	9.5	9.9	8.8
Wicomico	11.3	11.2	11.6	13.4	14.8	11.7	10.9	12.3	13.2	13.5
Worcester	14.6	6.5	7.8	9.5	9.7	15.1	6.4	8.2	7.6	9.5
Unallocated	-14.1	3.3	0.7	2.5	2.6	-14.5	3.2	0.6	2.6	2.4
Total	9.5	9.3	11.4	10.9	10.4	8.9	9.2	11.2	10.9	10.2

Exhibit 21A
Fiscal 2007 Adequacy Analysis
The Commission Recommendation (Five-year Phase-in)
(\$ in Millions)

<u>School System</u>	<u>Adjusted FY 2002 Revenue</u>	<u>Estimated FY 2007 Adequacy Cost¹</u>	<u>Estimated Additional Need</u>	<u>Estimated Aid Increases²</u>			<u>Estimated Revenue Increase</u>	<u>Remaining Gap</u>	<u>Gap Per Pupil</u>
				<u>State</u>	<u>Federal³</u>	<u>Local⁴</u>			
Allegany	\$74.7	\$111.9	\$37.1	\$34.7	\$0.9	\$4.2	\$39.8	\$0.0	\$0
Anne Arundel	552.8	684.7	131.9	78.1	2.6	77.4	158.1	0.0	0
Baltimore City	862.6	1,181.7	319.1	363.4	14.8	0.3	378.6	0.0	0
Baltimore	852.9	1,054.0	201.1	157.6	5.9	79.9	243.3	0.0	0
Calvert	116.8	145.4	28.5	23.9	0.9	15.7	40.4	0.0	0
Caroline	35.2	61.5	26.4	17.5	0.4	0.9	18.8	7.5	1,437
Carroll	187.0	238.2	51.2	41.1	1.0	19.1	61.1	0.0	0
Cecil	107.4	155.1	47.6	30.3	0.8	16.5	47.6	0.0	2
Charles	162.2	232.7	70.5	51.9	1.0	26.5	79.4	0.0	0
Dorchester	36.4	50.3	14.0	9.7	0.6	2.6	12.9	1.0	238
Frederick	251.4	352.1	100.7	68.4	1.0	40.2	109.7	0.0	0
Garrett	35.1	54.2	19.1	8.5	0.5	5.1	14.1	5.0	1,066
Harford	259.1	361.1	102.0	64.0	1.3	24.6	89.9	12.1	308
Howard	381.4	422.9	41.6	63.9	1.4	75.4	140.7	0.0	0
Kent	21.9	28.3	6.4	2.6	0.2	1.6	4.4	2.0	808
Montgomery	1,275.1	1,411.1	136.0	155.1	4.6	204.3	364.1	0.0	0
Prince George's	967.2	1,528.1	561.0	456.0	7.3	17.6	480.9	80.1	603
Queen Anne's	51.7	65.9	14.2	8.7	0.5	8.0	17.2	0.0	0
St. Mary's	104.6	136.0	31.3	21.2	1.2	13.1	35.4	0.0	0
Somerset	23.8	35.0	11.2	11.0	0.4	3.8	15.3	0.0	0
Talbot	33.0	45.1	12.1	2.5	0.4	3.6	6.5	5.5	1,320
Washington	141.3	194.2	52.9	36.7	1.3	29.0	67.0	0.0	0
Wicomico	99.9	157.7	57.8	41.8	1.1	20.3	63.2	0.0	0
Worcester	55.8	70.9	15.0	5.6	0.7	14.1	20.3	0.0	0
Total	\$6,689.2	\$8,777.9	\$2,088.7	\$1,754.2	\$51.0	\$703.7	\$2,508.9	\$113.4	\$136

¹ FY 2007 adequacy costs are based on projected FY 2007 enrollments and the successful schools base increased annually beginning in FY 2003 by the projected Implicit Price Deflator and enhanced by weights for special student populations from the Professional Judgement Study. The FY 2007 base cost per pupil is estimated at \$6,852.

² Revenue increases do not include projected increases to student transportation and other programs not covered under the adequacy analyses.

³ Federal aid increases were estimated by increasing budgeted FY 2002 federal revenues annually by the projected Implicit Price Deflator. Estimates of federal aid do not reflect increases resulting from the fiscal 2002 re-authorization of the Elementary and Secondary Education Act.

⁴ Total local appropriations were estimated by applying the average annual increase in local per FTE aid from FY 1997 to 2000 to the FY 2002 per FTE local appropriations, and multiplying the calculated per FTE appropriations for FY 2003 to 2007 by projected FTE enrollment under current law. Local appropriation estimates shown in the exhibit are less estimated local student transportation contributions.

adequacy gaps, ranging from approximately \$30,000 in Cecil County to \$80 million in Prince George's County.

The estimates of local aid increases shown in the exhibit are forecasted from past enhancements to local aid and are not intended to identify specific increases to local appropriations recommended by the Commission. Likewise, the fiscal 2007 remaining adequacy gaps do not necessarily reflect an additional amount that must be accounted for with additional local or federal funds. Adequacy targets are calculated to produce a rough estimate of the level of funding required to provide the resources that students need in order to meet State standards. The Commission believes strongly that meeting standards will require the commitment of additional funding from State, local, and federal sources. However, meeting standards, not a mathematical funding target, should be the ultimate goal of every school system.

The adequacy targets shown in Exhibit 21A are best viewed as “order of magnitude” estimates of each school system’s needs, and not exact funding levels needed to reach adequacy. For example, to the extent that there are cost differences between jurisdictions, the adequacy goals of a local school system cannot be measured using the same dollar values for all school systems. Thus, **Exhibit 21B** repeats the fiscal 2007 adequacy analysis but adjusts the estimated fiscal 2007 adequacy costs by the GCEI,³⁷ making upward and downward adjustments to adequacy targets. This analysis assumes that educational costs are not the same in every school system and adjusts adequacy targets to account for the differences. As demonstrated in the exhibit, only five local school systems (Caroline, Garrett, Harford, Prince George’s, and Talbot counties) show an adequacy gap by fiscal 2007 using the adjusted targets. Cecil, Dorchester, and Kent counties, which show fiscal 2007 adequacy gaps in Exhibit 21A, show no gaps in this exhibit. In addition, the adequacy gaps in Caroline, Garrett, and Talbot counties are reduced considerably. However, the adequacy gap in Prince George’s County increases by \$30 million (approximately \$230 per pupil), driving the statewide gap up to \$132 million. This analysis is presented to highlight the difference that a cost of education index can make and to accent the unfixed and imprecise nature of the adequacy gaps.

(D) The Variables Embedded in the Commission’s Proposal

In the course of developing enhancements to Maryland’s school finance system, the Commission carefully examined numerous factors that will drive its model in fiscal 2007 and thereafter. In order to achieve the goals of adequacy and equity endorsed by the Commission, many of the internal variables that relate to the Commission’s proposal will be phased in between fiscal 2003 and 2007, and a couple of existing programs will be phased out gradually rather than terminating immediately at the end of fiscal 2002.

³⁷The Commission acknowledges that the GCEI is out-dated, but uses it as the best existing estimate of the differences in educational costs between districts.

Exhibit 21B
Fiscal 2007 Adequacy Analysis
With Geographic Cost of Education Index Applied to Adequacy Cost
The Commission Recommendation (Five-year Phase-in)
(\$ in Millions)

<u>School System</u>	<u>Adjusted FY 2002 Revenue</u>	<u>Estimated FY 2007 Adequacy Cost¹</u>	<u>Estimated Additional Need</u>	<u>Estimated Aid Increases²</u>			<u>Estimated Revenue Increase</u>	<u>Remaining Gap</u>	<u>Gap Per Pupil</u>
				<u>State</u>	<u>Federal³</u>	<u>Local⁴</u>			
Allegany	\$74.7	\$102.9	\$28.2	\$34.7	\$0.9	\$4.2	\$39.8	\$0.0	\$0
Anne Arundel	552.8	705.2	152.5	78.1	2.6	77.4	158.1	0.0	0
Baltimore City	862.6	1,240.8	378.2	363.4	14.8	0.3	378.6	0.0	0
Baltimore	852.9	1,075.1	222.2	157.6	5.9	79.9	243.3	0.0	0
Calvert	116.8	146.8	30.0	23.9	0.9	15.7	40.4	0.0	0
Caroline	35.2	56.0	20.8	17.5	0.4	0.9	18.8	2.0	381
Carroll	187.0	238.2	51.2	41.1	1.0	19.1	61.1	0.0	0
Cecil	107.4	148.9	41.4	30.3	0.8	16.5	47.6	0.0	0
Charles	162.2	230.3	68.2	51.9	1.0	26.5	79.4	0.0	0
Dorchester	36.4	46.3	9.9	9.7	0.6	2.6	12.9	0.0	0
Frederick	251.4	355.6	104.2	68.4	1.0	40.2	109.7	0.0	0
Garrett	35.1	49.9	14.8	8.5	0.5	5.1	14.1	0.7	139
Harford	259.1	364.7	105.6	64.0	1.3	24.6	89.9	15.7	400
Howard	381.4	444.1	62.7	63.9	1.4	75.4	140.7	0.0	0
Kent	21.9	25.7	3.9	2.6	0.2	1.6	4.4	0.0	0
Montgomery	1,275.1	1,495.7	220.6	155.1	4.6	204.3	364.1	0.0	0
Prince	967.2	1,558.7	591.5	456.0	7.3	17.6	480.9	110.7	833
Queen Anne's	51.7	64.6	12.9	8.7	0.5	8.0	17.2	0.0	0
St. Mary's	104.6	122.4	17.7	21.2	1.2	13.1	35.4	0.0	0
Somerset	23.8	33.2	9.4	11.0	0.4	3.8	15.3	0.0	0
Talbot	33.0	42.8	9.8	2.5	0.4	3.6	6.5	3.3	781
Washington	141.3	192.2	50.9	36.7	1.3	29.0	67.0	0.0	0
Wicomico	99.9	148.2	48.3	41.8	1.1	20.3	63.2	0.0	0
Worcester	55.8	66.3	10.4	5.6	0.7	14.1	20.3	0.0	0
Total	\$6,689.2	\$8,954.7	\$2,265.5	\$1,754.2	\$51.0	\$703.7	\$2,508.9	\$132.3	\$158

¹ FY 2007 adequacy costs are based on projected FY 2007 enrollments and the successful schools base increased annually beginning in FY 2003 by the projected Implicit Price Deflator and enhanced by weights for special student populations from the Professional Judgement Study. The FY 2007 base cost per pupil is estimated at \$6,852. Adequacy costs were multiplied by the GCEI.

² Revenue increases do not include projected increases to student transportation and other programs not covered under the adequacy analyses.³ Federal aid increases were estimated by increasing budgeted FY 2002 federal revenues annually by the projected Implicit Price Deflator. Estimates of federal aid do not reflect increases resulting from the fiscal 2002 re-authorization of the Elementary and Secondary Education Act.

⁴ Total local appropriations were estimated by applying the average annual increase in local per FTE aid from FY 1997 to FY 2000 to the FY 2002 per FTE local appropriations, and multiplying the calculated per FTE appropriations for FY 2003 to FY 2007 by projected FTE enrollment under current law. Local appropriation estimates shown in the exhibit are less estimated local student transportation contributions.

The fiscal 2003 to 2007 structural framework that supports the Commission's proposal and its funding estimates is set forth in **Exhibit 22**. The Commission expects that the variables shown in **bold** in the exhibit will be reflected in the legislation that implements the Commission's proposal. The dollar values shown in *italics* are estimates based on the projected Implicit Price Deflator for State and Local Government Expenditures. The Commission expects that more accurate data regarding funding that would be available under current law in fiscal 2003 will become available in the near future. After obtaining these data, some of the internal variables, particularly for fiscal 2003, may need to change slightly to ensure that no school system receives less funding than it would under current law.

3.4 Local Funding

Although meeting the adequacy goals adopted by the Commission will require a significant increase in State aid over the next five years, funding the public schools remains a shared responsibility between State and local governments. Reaching adequate funding, therefore, will require additional local funding for the schools. Consequently, the Commission examined several issues relating to county financial support for education.

The Commission believes that the current maintenance of effort requirement has generally worked well to ensure a minimum level of funding for the public schools and recommends no change to the requirement. In recent years, aggregate county support for education has substantially exceeded the maintenance of effort requirement. Meeting adequacy goals by fiscal 2007 will require that counties continue to exceed maintenance of effort. The Commission estimates that if counties provide increases in education funding comparable to the increases provided from fiscal 1997 to 2000, most school systems would meet or exceed adequacy goals by fiscal 2007. Jurisdictions, such as Caroline County, that have not appropriated funds to the schools much beyond maintenance of effort will need to increase their support to ensure adequate funding. Consequently, the Commission believes strongly that maintenance of effort only establishes the minimum funding level. Achieving adequate funding will demand that counties continue to display the level of commitment to public education that the majority of counties have repeatedly demonstrated in the past.

The Commission is concerned, however, that some local property tax policies may impede the ability of counties to sufficiently fund education during the five-year phase-in of the Commission's funding proposal. As discussed in Section 2.7 of this report, five charter counties (Anne Arundel, Montgomery, Prince George's, Talbot, and Wicomico) have amended their charters to limit property tax rates or revenue growth. With the exception of Montgomery County, the limits can only be adjusted through a charter amendment. Montgomery County's limit may be adjusted by a favorable vote of seven of the nine county council members. County governments have three basic strategies for enhancing education funding: (1) utilize annual increases in revenues from

Exhibit 22

Variables within the Commission's Funding Proposal

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
I. General Education Funding						
A. Current Expense						
1. Foundation level						
Implicit Price Deflator ¹		3.5%	2.5%	2.6%	2.7%	2.7%
Adjusted adequacy base	\$5,443	\$5,634	\$5,774	\$5,924	\$6,084	\$6,249
FY 2002 foundation level	\$4,124	\$4,124	\$4,124	\$4,124	\$4,124	\$4,124
Percent of difference funded	0%	25%	45%	65%	85%	100%
Actual base	\$4,124	\$4,501	\$4,867	\$5,294	\$5,790	\$6,249
2. State share of current expenses						
Up to \$624	55%	54%	53%	52%	51%	50%
Next \$3,500 (up to \$4,124)	50%	50%	50%	50%	50%	50%
Above \$4,124	--	49%	48%	47%	46%	45%
Minimum State share per pupil ²	\$60	\$675	\$730	\$794	\$869	\$937
3. Other current expense variables						
Kindergarten FTE	0.5	0.6	0.7	0.8	0.9	1.0
Cost-of-education index	No	No	No	Yes	Yes	Yes
B. Guaranteed Tax Base						
1. GTB Level	--	80%	80%	80%	80%	80%
2. Max % of base	--	20%	20%	20%	20%	20%
3. Percent Funded	--	20%	40%	60%	80%	100%
C. Salary Challenge Phase Out Percent	--	25%	50%	75%	100%	100%
II. Special Student Populations						
A. Special Education						
1. Per pupil funding outside the formula	\$2,395					
2. Adjusted weight		0.74	0.74	0.74	0.74	0.74
3. Share funded		25%	35%	40%	45%	50%
4. Per pupil State funding		\$833	\$1,260	\$1,567	\$1,928	\$2,312
5. Tier 1 phase out percent		20%	40%	60%	80%	100%
B. At Risk						
1. Per pupil funding outside the formula	\$765					
2. Adjusted weight		0.97	0.97	0.97	0.97	0.97
3. Share funded		33%	35%	40%	45%	50%
4. Per pupil State funding		\$1,441	\$1,652	\$2,054	\$2,527	\$3,031
5. Baltimore City partnership phase out		55%	60%	100%	100%	100%
C. Limited English Proficiency						
1. Per pupil funding outside the formula	\$94					
2. Adjusted weight		0.99	0.99	0.99	0.99	0.99
3. Share funded		33%	35%	40%	45%	50%
4. Per pupil State funding		\$1,471	\$1,686	\$2,097	\$2,580	\$3,093
5. Unequalized portion		\$1,350	\$1,350	\$1,350	\$1,350	\$1,350
6. Equalized portion		\$121	\$336	\$747	\$1,230	\$1,743
III. Other Functions						
A. Disabled Transportation Grant						
1. Per student with special needs	\$500	\$600	\$700	\$800	\$900	\$1,000
2. Offset for students transported in 1980	Yes	No	No	No	No	No
B. General Transportation Add-on		FY03	(cont.)	(cont.)	(cont.)	(cont.)

Bold = Will be written into Commission bill.

Italics = Estimate calculated through other variables.

Note: Fiscal 2003 variables may be altered very slightly to account for updates to current law funding estimates.

¹ A two-year lag is built into IPD adjustments. Future year IPD projections are from DRI-WEFA.

² The current minimum State share per pupil is \$60. Under the Commission's proposal, this would be increased to 15% of the foundation level.

the county's existing tax structure; (2) raise tax rates or levy a new tax; and (3) reorder budget priorities to provide a larger budget share to education. The existence of a property tax rate or revenue limitation may constrain the use of the first two strategies, thereby impeding a county's ability to sufficiently increase education funding to meet adequacy goals.

It is difficult to predict the impact of tax limitation provisions on local education funding during the five year phase-in of the Commission's proposal for significant additional State education aid. In recent years, counties with property tax limitations have exceeded the maintenance of effort requirement. In fact, with the exception of Prince George's County, education funding increases in these counties have been comparable to increases in counties without tax limitations. In addition, property taxes are not the only sources of local revenues for education. Counties can also reorder budget priorities or utilize other taxes.

The Commission believes that it is vital that local governments have the ability to provide their share of the funding necessary to reach adequate funding goals by fiscal 2007. The courts have determined that the State may prohibit or override local tax limitations that would restrict the raising of revenues to support the public schools.³⁸ However, the Commission believes that it would be premature for the State to summarily override charter tax limitations adopted by a county's voters. Instead, the Commission recommends that local governing bodies be granted the authority to override charter tax limitations to increase funding for education. Such an action should require a super-majority vote and any additional revenues resulting from the action must be utilized to increase education funding.

3.5 Linking Education Funding and Accountability

The Commission's proposal reflects a standards-based approach to financing public education. The success of standards-based reform depends in part on the steps that are taken to hold students, schools, and school systems accountable for making progress toward, and ultimately meeting, the State's performance standards. The Commission recommends that each local school system be required to develop a comprehensive master plan that outlines the steps that are being taken to improve student achievement in every segment of the student population so that all school systems will eventually meet the State's performance standards. The master plan should link funding from federal, State, and local sources to strategies for student improvement. The Commission believes that the use of a master plan provides maximum flexibility to local school systems while creating a mechanism for holding schools systems accountable for allocating resources in a way that enables them to meet the needs of all students. This approach builds on the State's existing accountability system and the availability of

³⁸See *McCarthy v. Board of Education of Anne Arundel County*, 280 Md. 634, 651 (1977); and *Board v. Smallwood*, 327 Md. 220, 243-244 (1992). See also 79 Op. Att'y Gen. No. 94-057 (1994).

disaggregated data to track student performance -- and takes the State's accountability system to the next level by requiring local school systems to use available information to develop a strategic plan for improving student performance.

The Commission recommends that MSDE develop procedures governing the submission of comprehensive master plans by local school systems that include the involvement of local superintendents and local boards of education. The procedures should provide that MSDE will initially consider a school system's existing integrated management plan to be its master plan. The requirements regarding the master plans should become more prescriptive if adequate progress is not being made in a school system. The procedures should also provide that a local board will share the proposed master plan with its local government for comment before submitting it to MSDE.

The master plan would address, in a coordinated manner, how the school system will meet the needs of special education students, LEP students, and students at risk of failing in school, as well as the general student population. The master plan would also address certain programmatic elements, including but not limited to: (1) services for pre-kindergarten students; (2) services for kindergarten students; (3) services for career technology; and (4) services for gifted and talented students. Other specific programmatic elements or student populations could also be addressed in the master plan as appropriate.

In addition, the master plan would include implementation strategies for achieving the objectives identified in the master plan; strategies to measure progress in achieving objectives; time lines for implementing strategies and achieving objectives; and organizational units or individuals responsible for implementing strategies and achieving the objectives.

Each school system would be required to submit a five-year comprehensive master plan to MSDE by October 1, 2003, and the plan would then be updated annually. The State Superintendent of Schools would review the master plans, at a minimum, for compliance in addressing all required elements in the plan and would have the authority to review and analyze in more detail the comprehensive master plan of any local school system at any time. If a local school system fails to improve the performance of students in every segment of the student population, the State Superintendent of Schools would be required to review and approve the content of the school system's master plan.

The State Superintendent of Schools would be required to make recommendations to the Governor and the General Assembly concerning the distribution of State aid to school systems that fail to make progress toward meeting State performance standards. In addition, the State Board of Education would be given the authority to review and approve the allocation of State resources in school systems that fail to make substantial improvements toward meeting State performance standards. The State Board of Education would also be given the authority to withhold resources from

school systems that fail to meet State performance standards and fail to develop a satisfactory master plan to improve student performance.

The State Superintendent would also be required to evaluate the effectiveness of various academic intervention and behavior modification initiatives in order to identify best practices and to distribute the evaluations to the local school systems, the Governor, and the General Assembly.

Finally, the Commission recommends that MSDE modify existing programs for awards to high performing schools and sanctions to low performing schools to reflect student performance on a disaggregated basis in addition to overall school performance. Current programs are based only on overall performance. In order to oversee the recommended accountability measures, the Commission recommends that MSDE be provided resources and personnel as needed to fulfill its obligations as outlined here.

3.6 Restrictions on Funding

While the principle of flexible funding forms the basis for the Commission's proposal, the Commission feels very strongly that two programs, both supported by extensive research,³⁹ be mandatory by the time its funding recommendations are fully implemented.

(A) Full Day Kindergarten

The first program that the Commission endorses as a State mandate is full-day kindergarten. Under current law, all jurisdictions except Garrett County receive formula funding based on a 0.5 full-time equivalent (FTE) calculation for kindergarten students. Many school systems have begun to implement full-day kindergarten programs for a portion or all of their kindergarten students without the benefit of State funding formulas that account for the additional classroom time. The Commission's proposal increases the kindergarten FTE count by 0.1 each fiscal year from 2003 to 2007, arriving at a 1.0 FTE count by the end of the implementation period. The Commission recommends that, commensurate with full implementation of the Commission's recommendations, full-day kindergarten be mandated in all local school systems by fiscal 2007.

³⁹See Final Report of the Judith P. Hoyer Blue Ribbon Commission on Financing of Early Child Care and Education, pp. 3-8 (November 2001).

(B) Pre-Kindergarten

The second program that the Commission endorses as a State mandate is public pre-kindergarten. In November, the Commission received the final report of the Judith P. Hoyer Blue Ribbon Commission on the Financing of Early Child Care and Education. The report notes that “[r]esearch unequivocally demonstrates that positive brain development, and long-term school success, is linked to quality, stimulating experiences in the early years of childhood.”⁴⁰ Because the expert panels used in the Professional Judgement Study recommended that pre-kindergarten programs be available to four-year-old children from economically disadvantaged backgrounds, the weight calculated for at-risk children under the Professional Judgement Study included the cost of providing pre-kindergarten programs for these children. Publicly funded pre-kindergarten programs are currently available to the majority of Maryland’s disadvantaged children, and the Commission recommends that the remaining gap be filled so that all economically disadvantaged four-year-old children can attend publicly funded pre-kindergarten by the time the Commission’s recommendations are fully implemented.

(C) Local Control

The Commission does not recommend the imposition of any additional programmatic mandates. Rather, the Commission recommends that local boards of education be encouraged to tailor programs to local needs. Through the comprehensive master plan process, educational programs for all student populations -- including students with special education or language needs, students struggling in the classroom, and students with special talents -- would have to be designed and implemented by local school systems. Unlike a substantial proportion of current State aid, funding enhancements recommended by the Commission are not attached to specific programs. For example, the Commission recommends that the mandated \$3.9 million “set-aside” for career and technology education be dropped.⁴¹ Instead, the comprehensive plans drawn up by local school systems could include a plan for career and technology programs without linking the programs to a specified minimum funding level. Likewise, programs for special education students, limited English proficiency (LEP) students, and students at risk of failing to meet State standards would not be required to adhere to specific funding levels. This approach gives a great deal of latitude to local school systems and, perhaps more significantly, allows the State to focus on system outputs rather than inputs.

⁴⁰Id. at 4.

⁴¹See §5-202(f) of the Education Article.

3.7 Locally Paid Retirement Costs

The State currently pays the retirement costs of individuals employed by local school boards who are members of the Teachers' Retirement and Teachers' Pension systems. The local school systems do not receive funds from the State. Instead, a lump sum appropriation representing an estimate of these costs is made to the State retirement system. The fiscal 2002 State budget includes an appropriation of \$328 million for retirement costs associated with individuals who are employed by local boards of education. However, under guidelines promulgated by the Maryland State Retirement Agency, local school systems are required to reimburse the State for the retirement costs associated with positions funded through federal and most State categorical aid programs. The only State education aid programs to which this requirement does not apply are: (1) basic current expenses; (2) compensatory education; (3) special education; and (4) the Baltimore City/State Partnership.

For fiscal 2002, it is estimated that school boards will reimburse the State \$29.6 million. The amount attributed to State categorical aid programs (as opposed to federal aid programs) is not readily available, but it is estimated that this figure is approximately 20 percent to 25 percent of all school board payments. Until fiscal 2000, all local retirement payments were booked as general fund revenues. Legislation enacted in 2000 required that school board payments be deposited in a new Transitional Education Fund and used to implement the Governor's Teacher Salary Challenge Program. Legislation enacted in 2001 extended the life of the Transitional Education Fund until the end of fiscal 2003 and required that, thereafter, school board payments be deposited in the general fund.

In light of the fact that the Commission's proposal for enhancing the State's school finance system includes large increases in funding for several programs, the Commission believes that it is appropriate to consider the issue of whether local school boards should be required to reimburse the State for some or all of the retirement costs associated with State categorical aid programs. After exploring this issue, the Commission concluded that there is no logical reason to distinguish between different types of State education aid programs with regard to payment of retirement costs. Therefore, the Commission recommends that the State pay the retirement costs associated with positions that are funded through any State education aid program. The Commission believes that local school systems should continue to reimburse the State for retirement costs associated with positions funded through federal aid programs.

3.8 Enrollment Counts

The finance structure proposed by the Commission distributes State aid based on workload data as measured by the following student enrollment counts: (1) the foundation program is based on full-time equivalent enrollment as of September 30 of the preceding school year; (2) the special education formula is based on the number of

students requiring special education services as of December 1 of the second preceding school year; (3) the Limited English Proficiency program is based on the number of non- and limited-English proficient students enrolled as of May 15 of the second preceding school year; and (4) the categorical program for students at risk of academic failure is based on the number of students eligible for free or reduced price meals as of October 31 of the second preceding school year.

The Commission is concerned about the current enrollment count dates for several reasons. First, the existing enrollment count dates do not reflect the workload of the school systems at the time that State aid is distributed. In the case of the categorical programs, the enrollment count dates lag funding by two years. As a result, school systems with growing student enrollment do not receive State funds to support this growth. Second, the proposed finance structure includes four different enrollment counts taken at four different times during the school year. It may be possible to simplify the finance structure by providing some consistency in the enrollment count dates.

The Commission is also concerned about the impact of the proposed finance structure on school systems with declining enrollment. Once the enhancement proposal is completely phased-in, declines in enrollment will have a negative impact on State aid and may impact local aid. School systems with dramatic declines in enrollment need time to make programmatic adjustments in order to reduce costs. Several states have adopted various measures to stabilize funding and/or provide a transitional period to help school systems adjust to declining enrollments. The State should review these measures to determine if they are appropriate for Maryland.

The Commission recommends that MSDE form a committee of stakeholders to evaluate the issues relating to enrollment counts and submit findings and recommendations, including a fiscal impact analysis, to the Governor and the General Assembly prior to the development of the fiscal 2005 State budget.

3.9 Future Evaluation of the Commission's Proposal

The A&M studies used fiscal 2000 costs to estimate the cost of an adequate education in Maryland. The Commission recommends that a new adequacy study be conducted within the next ten years. At a minimum, a new adequacy study should identify a base funding level needed for students without special needs and per pupil weights for special needs students to be applied to the base funding level. The Commission also recommends that the new adequacy study include an analysis of the effect of concentrations of poverty on adequacy targets. The Commission discussed the idea that appropriate adequacy targets in schools and school systems with concentrations of poverty might include a higher weight for economically disadvantaged students. The A&M adequacy studies, however, were not designed to furnish the quantitative information necessary to guide a data-driven decision in this area. The Commission recommends that this issue be examined further during the next assessment of adequacy.

The Commission also believes it would be unwise for the State to provide major funding enhancements without evaluating the impact of the increased aid. MSDE and the State Board of Education will continue to monitor student progress towards State standards, but the Commission recommends that a more comprehensive assessment also be conducted. The evaluation should include:

- A comparison of local school systems where increased funding leads to considerable improvements and systems where increased funding fails to result in marked improvements.
- An assessment of the extent to which comprehensive master plans are successfully implemented.
- A detailed examination of how local school systems use funding enhancements.
- The impact of increased State aid on local contributions to education.
- The identification of factors that consistently produce positive results in schools and school systems.

Finally, the Commission recommends that funding be provided to MSDE to allow the Department to conduct or contract for the new adequacy study and the evaluation of the Commission's proposal. Good public policy relies on continuous reassessment and the evaluation of newly-adopted policies.

3.10 School Facilities

The Commission's charge, as set forth in the legislation that created the Commission, did not include an evaluation of the State's needs in the area of school facilities. Rather, the Commission was instructed to review the State's current education financing formulas and accountability measures and to make recommendations: (1) for ensuring adequacy, equity, and excellence; (2) for providing a smooth transition as current education funding initiatives abrogate; (3) regarding the desirability of providing additional State aid through targeted grants or the State's foundation program; and (4) for ensuring that local property tax policies do not affect the equitable allocation of funding for students in public schools. Consistent with this charge, the Commission requested that A&M conduct an adequacy study for the purpose of measuring the amount of funding that is necessary to allow all students, schools, and school systems to achieve the State's performance objectives. The A&M study was designed to focus on the amount of funds necessary to support operating costs. For the purpose of conducting the study, A&M assumed that school facilities were adequate to support programs funded through an adequate operating budget.

The Commission notes that numerous individuals who testified at public hearings conducted by the Commission provided graphic details of deterioration and space deficiencies in school facilities, suggesting that A&M's assumption about the existence of adequate school facilities is not an accurate reflection of reality. In light of this testimony, the Commission recommends that a new commission be appointed in the near future to evaluate whether the State's school facilities are adequate to support the Commission's school finance proposal. The Commission also believes that the new commission should evaluate: (1) the equity of the State's school construction program, with particular attention to State and local cost shares for school construction projects; and (2) whether the Aging Schools program should be continued as a permanent program. The Commission recommends that the new commission be appointed no later than May 31, 2002, and be required to complete its work no later than December 31, 2002.

3.11 Programs That Terminate at the End of Fiscal 2003

The Commission is required, as a part of its charge, to make recommendations as to how to provide for "a smooth transition as current educational funding initiatives abrogate." A variety of categorical aid programs relating to the Baltimore City/State Partnership, School Accountability Funding for Excellence (SAFE) Program, Governor's Teacher Salary Challenge Program, and Prince George's County school construction program were originally scheduled to terminate (i.e., "sunset") at the end of fiscal 2002. In its December 2001 Interim Report, the Commission concluded that a final decision on whether to extend, repeal, or modify these programs could not be made until after the completion of an adequacy study and recommended that these programs be extended for one year. Based on the Commission's recommendation, the General Assembly passed legislation in 2001 that extended these programs until the end of fiscal 2003. The General Assembly also passed separate legislation in 2001 that altered the State/local cost share for the Baltimore City school construction program for fiscal 2002 and 2003.

The Commission's school finance proposal requires that most of the programs that are scheduled to sunset be: (1) consolidated into the new foundation program; (2) consolidated into one of the new categorical programs for special needs students; or (3) continued as separate programs. However, the Commission's school finance proposal does not address the sunset provisions relating to the following three items: (1) the Prince George's County Management Oversight Panel; (2) the State/local cost shares for Prince George's County and Baltimore City under the State's school construction program; and (3) the Aging Schools program. For the reasons set forth below, the Commission recommends that the sunset dates for each of these programs be extended.

(A) Prince George's County's Management Oversight Panel

The 1998 SAFE legislation established a Management Oversight Panel (MOP) for the Prince George's County public school system. The SAFE legislation required the MOP to monitor for a four-year period the implementation of recommendations set forth in performance and financial audits of the county school system. The SAFE legislation also stated that it was the intent of the General Assembly that \$210,000 be included in the State budget each year, through fiscal 2002, to fund the MOP Coordination Office. The 1998 provisions relating to the MOP were originally scheduled to sunset on June 30, 2002. The Education Finance, Equity, and Excellence Act of 2001 extended the life of the MOP until June 30, 2003, and required that the State provide \$310,000 for the Coordination Office through fiscal 2003. Since the county has not yet fully responded to the recommendations set forth in the performance and financial audits referenced in the SAFE legislation, the Commission recommends that the MOP and funding for the MOP's Coordination Office be extended until the audit recommendations are fully implemented.

(B) State/Local Cost Shares for the School Construction Program

The 1997 consent decree entered in the Baltimore City Circuit Court in the *Bradford* case included a provision that required the State, in fiscal 1998 through 2002, to provide at least \$10 million to the Baltimore City public school system to fund school construction projects. The consent decree also required that this money be used to fund projects in which the State provided 90 percent of the funding, and Baltimore City provided 10 percent of the funding. Under the consent decree, any State funds in excess of \$10 million were subject to the normal State/local cost share for Baltimore City school construction projects -- i.e., 75 percent State/25 percent local. The Board of Public Works subsequently amended the rules governing the State's public school construction program to reflect the requirements of the consent decree. However, the General Assembly passed legislation in 2001 that altered the State/local cost share for school construction projects in Baltimore City for fiscal 2002 and 2003 by increasing from \$10 million to \$25 million the amount for which the State will contribute 90 percent of eligible costs, and Baltimore City will contribute 10 percent of eligible costs. For State funds over \$25 million, the State/local cost share remains at 75 percent State/25 percent local. The bill also requires Baltimore City to appropriate at least \$12.4 million as local matching funds in fiscal 2002 and 2003.

In 1998 the General Assembly passed legislation that altered the State/local cost share formula for public school construction projects in Prince George's County by requiring, for fiscal 1999 through 2002, that the State provide 75 percent of the eligible project costs for the first \$35 million in public school construction funding allocated by the State and 60 percent of the eligible costs for any funds in excess of \$35 million. The State/local cost share formula that existed before the enactment of this legislation required that all State funds be used to provide 60 percent of eligible costs. In addition,

the 1998 legislation required the State to provide at least \$35 million to Prince George's County for school construction projects in fiscal 1999 through 2002. This legislation also required that Prince George's County provide at least \$32 million for school construction projects in fiscal 1999 through 2002. The Education Finance, Equity, and Excellence Act of 2001 extended these requirements through fiscal 2003.

As discussed above in Section 3.13 of this report, the Commission believes that the appropriateness of particular State and local cost shares under the State's school construction program should be assessed by a new commission that is appointed to evaluate the adequacy and equity of the State's school construction program. For consistency with that recommendation, the Commission also recommends that the sunsets relating to the Baltimore City and Prince George's County State and local cost shares be extended until the end of fiscal 2004 (i.e., June 30, 2004), to allow time for the new commission to complete its work.

(C) Aging Schools

The 1997 legislation that established the Baltimore City/State partnership required that \$4.3 million be distributed to local school systems for the Aging Schools program. The 1998 legislation that established the SAFE program provided an additional \$6 million for the Aging Schools program. The Aging Schools program is administered by the Interagency Committee on School Construction, which must review and approve all projects. Local school systems may use the aging school funds for improvements, repairs, and deferred maintenance of public school buildings that are more than 15 years old. Eligible project expenditures include asbestos/lead paint abatement, fire protection systems and equipment, painting, plumbing, roofing, heating, ventilation and air conditioning systems, site redevelopment, wiring schools for technology, pre-kindergarten facilities, and renovation projects related to educational programs and services.

Funding for the Aging Schools program is currently scheduled to sunset at the end of fiscal 2003. The Commission recommends that the sunset date for this program be extended until the end of fiscal 2004 (i.e., June 30, 2004) so that the issue of whether to continue the Aging Schools program as a permanent program can be evaluated by the new commission that is appointed to evaluate issues relating to adequacy and equity in the State's school construction program.

3.12 Baltimore City-State Partnership

A sunset provision in the legislation creating the Baltimore City-State Partnership to manage the Baltimore City Public Schools (Section 28 of Chapter 105 of 1997) provides that, if action is not taken by the General Assembly to extend or modify the Partnership during the 2002 session, the governance structure, management, and

accountability provisions remain in law except as they relate to the appointment of members to the New Baltimore City Board of School Commissioners (Board). Currently, Board members are appointed and Board vacancies are filled by the Governor and the Mayor from a list of names submitted by the State Board of Education. The requirement that the Governor and Mayor jointly appoint members and fill vacancies from lists provided by the State Board of Education is scheduled to terminate on June 30, 2002. If the sunset provision relating to this requirement is not repealed during the 2002 session, the Governor and Mayor would not be required to appoint members or fill vacancies from lists submitted by the State Board of Education after June 30, 2002.

The Commission believes that the Baltimore City-State Partnership is working well and the appointment process under current law has operated smoothly. The State Board of Education has submitted names of individuals with excellent credentials and the expertise necessary to successfully serve on the board and guide the school system through its reform efforts. The Commission is hesitant to change something that is working well. Therefore, the Commission supports the continuation of the Baltimore City-State Partnership and recommends that the current requirement that the Governor and Mayor appoint board members and fill vacancies from lists of names submitted by the State Board of Education be continued.

Minority Statement

Minority Statement by Commission Members Del. Sheila Hixson and Del. Jean Cryor

Everyone involved with the Commission on Education Finance, Equity, and Excellence, whether they are a Commission member, an education advocate, a concerned parent, a committed teacher, or an interested citizen cares deeply about the future of the children of Maryland and about the future of public education in our State.

The challenge before the Commission is a noble one. Education reform demands sure, steady responses that are both bold and careful. Our nation calls out for a generation of better educated children, prepared to take their place in a changing world. Maryland has always answered this call with determination, with pride in its ability to reach out to each child from the cities, to the suburbs, to the country, and with a belief that education is the right of every child. From children born far away speaking a language other than English, to children challenged with special needs, to children trying to break out of the cycle of poverty, Maryland says, “Yes, you will be educated.” It is our pledge to you, to your parents, to your community.

Unfortunately, the recommendations adopted by the majority do not address several issues which are critical to providing every child with an adequate, if not an excellent education. The Commission’s recommendations focus on the first two issues contained in its title (finance and equity) but do little to address the issue of excellence. We fear that if the Commission’s recommendations are implemented without first addressing their deficiencies, the State will be doing little to change our current public school system except to spend more money on it. Recognizing the seriousness of the charge to improve public school education, and the urgency to allocate money responsibly, we respectfully submit the following minority report.

Base Cost Issues and the Successful School Approach

The new funding regime recommended by the Commission was based primarily on the work and advice of the Commission’s private consultant, Augenblick & Myers of Denver, Colorado. It was the only respondent to the Commission’s Request for Proposals (RFP). After determining that Maryland has a highly equitable system for distributing State aid for education, Augenblick prepared a series of adequacy studies for the Commission. These studies attempt to develop a price tag for an adequate education in our State. The Commission decided to use the results of the Successful Schools study as the basis for a new foundation level for most of the State’s funding programs.

The Successful Schools study looked at funding levels in 59 individual schools around the State which were identified as being successful by the Maryland State Department of Education (MSDE). It is important to note that no state has used a school-by-school analysis to determine statewide funding levels. In the other states where the Successful Schools approach is used, the funding is based on a school district basis not on an individual school basis.

In Ohio, for example, there are 607 school districts. The funding levels of the 50 most successful school districts were used to establish the new foundation level. Maryland has only 24 school

districts. The consultant's plan for determining statewide funding levels could not fit in Maryland. Like an industrious tailor fitting a suit for another, the consultant began to alter the plan. A school-by-school analysis was fit over the plan. While tucking and stretching the analysis, the consultant properly warned the approach was an "overly optimistic"¹ attempt to establish a "precise figure"² on which to base adequacy. Thus, the most important decisions in a decade concerning education funding rest uneasily on an untried, ill-fitting methodology.

The analysis conducted by the consultant and the Commission short-sightedly look only at the financial aspects of a successful school. No effort was made to study other components of a successful school or, critically, to understand why similar schools with the same funding levels and student demographics did not succeed. The report drifts toward the perilous conclusion that the entire reason for a successful school is funding and funding alone. We know adequate funding plays a vital role to ensure success. However, experience demonstrates similarly situated schools have various degrees of success.

Some effort needs to be made in determining what other non-fiscal inputs are important to success. The consultant concedes this point when he writes, "One shortcoming of the successful school approach is that it looks only at the resources that are actually available in the school – even if the school is successful, we do not know much about how the school manages its resources to achieve the desired result."³ In order to begin to address the concept of excellence, we must look at the entire range of resources and how they are managed. Otherwise, we are throwing money at the problem and hoping that is the fix.

Special Student Populations

In order to address the needs of students who require additional educational services, the Commission recommends the creation of three major categorical programs aimed at special education students, students with limited English proficiency, and students living in poverty. An additional grant will be provided to a school system for each student who fits into one of these categories. The grant will be a percentage of the foundation amount, and the percentage is based upon the 'weighted' additional cost of providing services to these students. The weights were determined by the Professional Judgment panels used by Augenblick in the other adequacy study. We believe that the funding approach recommended by the Commission concerning these categorical programs has two fundamental flaws.

First, we believe it is an error to recommend the funding for these programs be entirely wealth equalized.⁴ In doing so, tens of thousands of students with special needs are relegated to a sub-

¹ *Calculation of the Cost of Adequate Education in Maryland in 1999-2000 Using Two Different Analytic Approaches*, Augenblick & Myers (September, 2001), page 29.

² *Ibid*, page 29.

³ *Ibid*, page 28.

⁴ For the Limited English Proficiency Program, only new funding above the current grant amount of \$1,350 per student is wealth-equalized.

standard educational opportunity. Few people would object to the proposition that special needs students deserve special services and that the availability of these services should not be dependent upon the ability of the local government to fund them. Every child deserves an appropriate educational opportunity. By not guaranteeing a minimum State grant per special needs student, these students' education is placed entirely on the local government's willingness to pay for it. As a result, special needs students who live in poor districts with generous State assistance or who live in wealthy districts which are willing to fund programs will receive a superior educational opportunity. For those students who happen to live elsewhere, their education will be in jeopardy. A new disparity will be unwittingly created.

By adopting this set of recommendations, Maryland would undo decades of its own funding precedent and would establish a system of funding special needs students that is singular and untried. Even the federal government recognizes the inherent weakness in entirely wealth-equalizing special needs funding. It distributes similar aid through a hybrid approach wherein each student receives a base grant while poorer students receive extra. A similar approach could and should be implemented in Maryland.

Second, we have serious concerns about the recommended student weights. The weights were determined using only the recommendations of the seven professional judgment panels that each met only for one day to develop prototype schools. The discussion of student weights was only a small part of their deliberations. The consultant repeatedly counseled the Commission to further study the weights determined by the professional judgment panels. Little study was done.

On the issue of funding for students at-risk due to poverty, Augenblick specifically counseled that "The cost of compensatory [at-risk] education is unknown – neither how much is needed to assure student success nor how much is actually being spent now."⁵ Yet, the recommendation is to use a weight that Augenblick labeled as "extraordinarily high."⁶ The faulty methodology is easily recognized. But, instead of further examination or abandoning the new weight, the faltering conclusion was patched over. The weight was dropped by 21%. The new number struggles for credibility. No other state uses such a number. It exceeds the weight used in every other state which uses a similar approach. No evidence was put forward to shore up the conclusion that it is the correct number. As a result, \$800 million would be spent on an approach that can be described as shaky, at best.

On the issue of the weight for special education students, the concerns of the consultant were again ignored by establishing only one weight for all special education students no matter what their need. Augenblick reported to the Commission that "In our view, the special education weight should be subdivided into two or three weights."⁷ Yet, the final recommendation is for one weight with the belief that the differences will average out. Unfortunately, this short-sighted approach ignores the reality of special education needs in Maryland. With the number of special

⁵ *Things to Think about When Developing Procedures to Distribute State Support for Compensatory Education*, Augenblick & Myers (August 10, 2000), page 4.

⁶ *Calculation of the Cost of Adequate Education in Maryland in 1999-2000 Using Two Different Analytic Approaches*, Augenblick & Myers (September, 2001), page 18.

⁷ *Ibid*, page 30.

education students growing and with the needs becoming more complex, the State must recognize fact and establish a range of weights for special education students. Section 8-401 of the Education Article sets forth 13 different conditions for which a student is eligible for special education services. More than 111,000 students across the State qualify for this assistance. It is unreasonable to believe and irresponsible to endorse the recommendation that one weight will suffice for all special education students. Other states have multiple weights. It is time for Maryland to recognize the complexities of special education needs.

Enrollment Concerns

Beginning with the first public hearing, the Commission heard repeatedly that there is a need to alter the method by which enrollment is calculated. This is critical. All of the aid programs addressed by the Commission are enrollment driven. Several school systems repeatedly asked for a growth factor to be incorporated into the basic funding formula. However, the Commission made no attempt to ever study this issue. Thus, growing counties will continue to shoulder the entire cost of increasing enrollments.

At one point, MSDE staff presented the Commission with a modest proposal to base categorical funding on enrollment counts from the prior school year instead of the current practice of using the second prior school year. This proposal was initially adopted by the Commission. It was later dropped when it was determined that school systems with declining enrollment would lose a small portion of their new funding when accurate numbers are used. The Commission instead recommended the creation of another commission to look at the issue of enrollment to be incorporated in the formulas by Fiscal Year 2005.

While the Commission labored to set precise figures for funding, it ignored the advice of its own staff and continued to rely on outdated and inaccurate enrollment counts. As a result of this action, Maryland taxpayers will be paying more than \$20 million to educate phantom students through the three special needs categorical programs alone. Responsible legislators cannot pass education legislation without knowing how many students are being educated. We cannot endorse a recommendation for an accurate count of enrollment tied to yet another commission set to report in Fiscal Year 2005.

Flexible Funding and New Mandates

The Commission's report trumpets the flexible nature of its recommended funding. Unfortunately, the goal of flexible funding still appears out of the reach of local school systems. Each school system is now to be required to develop a master plan to outline how it expects to use the new State funds to meet the State's accountability standards. Ideally, each school district would have the option to decide between after-school programs, class size reduction, full-day kindergarten, pre-school programs, year-round programming, extended day programs, or any other initiative. However, under the Commission's recommendations, each school system will be required to have full-day kindergarten for all students by the 2006-07 school year and to offer pre-kindergarten programs to all economically disadvantaged students by the same school year. The cost of these two new services was never estimated. The result is each school system with the 'flexibility' to offer a range of new programs, but only if it funds them after satisfying these

two new, expensive, and potentially unfunded mandates. The popularity and desirability of full-day kindergarten and pre-kindergarten for economically disadvantaged students among most members of the Commission cannot mask the ripple effect that will be experienced by many school system budgets as a result of these two recommendations.

Additionally, the Commission recommends the inclusion of a cost-of-education index into the basic current expense formula by Fiscal Year 2005. This index will be established by yet another task force. In order to estimate the cost of this index in their out-year funding projections, the Commission used figures developed by the National Center for Education Statistics. For many jurisdictions, a large portion of their additional recommended funding comes from this add-on. Each school system will be directed to develop a master plan to spend these dollars with no guarantee that the money will ever arrive. This has the appearance of being unreasonable. It will potentially consume a huge amount of time and resources. The index must either be incorporated now or be dropped with its resulting program enhancements and expectations.

Space Concerns

The consultant assumed that there are adequate facilities to accommodate new programs. But, we know that there is not space for every new kindergarten or pre-kindergarten program, for every new special education program, or for every newly reduced size class. The response to the space question is ducked. Instead there is a recommendation for a third new task force to examine facilities and space needs. Local school systems may be caught in the frustrating dilemma that the State will be funding new programs to be housed in facilities that do not exist. To add to the frustration, the State will hold the local school systems accountable if they do not comply with the new mandates and requirements. The important reform that the Commission is seeking can be doomed by its failure to recognize the reality of the availability of usable space and the inability of local school systems to create new facilities.

Conclusion

The members of the Commission of Education Finance, Equity, and Excellence are to be congratulated for the hard work and effort made during the past two years. The Commission has raised important issues and sought education reform for the Governor, the General Assembly, the educational community, and the public to examine, consider, and put forward through the report or through individual pieces of legislation. As if freed from practical concerns by the tight financial picture and the persistent warning of the Governor of no new funding, costs float to billions of dollars of new money. Concerns of funding and a report with too many significant deficiencies are smothered in the sweet perfume of big, new money for a few school districts.

The challenge before the Commission awaits a better crafted response. The reform is not completed. The work is not finished.

Note: This page was inadvertently omitted from the printed version of the Final Report of the Commission on Education Finance, Equity, and Excellence (January 2002).

Individual Statements

**STATEMENT FROM MS. LORETTA JOHNSON,
COMMISSION REPRESENTATIVE FOR
THE BALTIMORE TEACHERS UNION**

After two long years, we are pleased to endorse the final recommendations of the Thornton Commission. By recognizing the magnitude of funds needed to reach an adequate level of funding and increasing the state's overall share to reach this level, we are confident that the children of Baltimore City will benefit from the proposed changes. We applaud the Commission members for approving a funding approach that will bring unprecedented funding increases to K-12 education.

The teachers of Baltimore City will greatly appreciate the additional resources recommended to help them address the many challenges they face on a daily basis. Baltimore City has a higher number of children from various special needs populations than any other jurisdiction in the state. These students—whether they are poor, homeless or handicapped—require increased resources and greater efforts to educate.

Accordingly, we do find it unfortunate that the final formula does not include a concentration factor. Many years of solid, credible national research has clearly shown the relationship between concentrations of poverty and student achievement.¹ Given that the concentration of free and reduced price meal recipients exceeds 75 percent at over 125 schools in Baltimore City, this issue takes on exceptional significance in our jurisdiction. The challenges we face every day in the classroom in our efforts to teach these kids should not be overlooked.

Another important issue concerns how the Commission has chosen to backload the funding increase. While doing so saves the state money, calculations have shown that Baltimore City loses over \$120 million in additional funds solely because of the methods used to backload the phase-in. Further, we oppose the method used to phase-out the partnership and remedy plan funds. Currently, this funding is phased-out 55 percent the first year, 60 percent the second year, and 100 percent thereafter. Any approach that removes these funds until the full phase-in of additional funds has been reached, deprives classroom teachers of necessary resources.

We were especially pleased to see funding included for full day kindergarten and pre-kindergarten classes for at-risk students. We know that reaching these kids early will make our jobs easier down the road. Yet, the unaddressed issue of the adequacy of facilities to house these

¹ Any number of studies can be cited, including William Julius Wilson's 1987 study "The Truly Disadvantaged," which labeled the concentration effect between poverty and achievement. The Prospects study by Puma, et. al., 1997 came to similar conclusions. The National Assessment of Educational Progress (Lippman, Burns, & McArthur, 1996) also backs up these conclusions. Other relevant studies include: Jencks, C.S., & Mayer, S.E. (1990). The social consequences of growing up in a poor neighborhood. In L.E. Lynn & M. McGeary (Eds.), *Inner-city poverty in the United States* (pp. 111-186). Washington, DC: National Academy of Sciences; Jencks, C.S., & Phillips, M. (1998). The black-white test score gap. Washington, DC: Brookings; White, K.R. (1982). The relation between socioeconomic status and academic achievement. *Psychological Bulletin*, 91, 461-481; Wilson, A.B. (1959). Residential segregation of social classes and aspirations of high school boys. *American Sociological Review*, 24, 836-845.

students remains. We strongly support the Commission's recommendation for the creation of a new commission to look at facility issues facing local jurisdictions. Baltimore City schools are still struggling to address over \$600 million in deferred maintenance and needed repairs identified four years ago. A commission on capital funding will help highlight the condition of our schools and, hopefully, bring some needed assistance.

Finally, we understand that the legislature is facing some very tough budget decisions during the upcoming session. However, we have invested too much in this commission to let its recommendations gather dust on a shelf. The \$130 million needed to fund the first year of the new formula must be found. If only a portion of this amount becomes available, the funds need to be directed to the jurisdictions with the highest number of special needs students—that's the underlying premise of the Thornton recommendations and one we wholeheartedly support.

Respectfully Submitted,

Loretta Johnson
Baltimore Teachers Union

Maryland Association of Boards of Education



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January 4, 2002

Dr. Alvin Thornton, Chairman
Commission on Education Finance, Equity, and Excellence
Room 214, Legislative Services Building
90 State Circle
Annapolis, MD 21401

Dear Dr. Thornton and Commission Members:

I am writing on behalf of the Maryland Association of Boards of Education (MABE), representing Maryland's twenty-four local school boards, to congratulate the Commission on completing its final report and to express MABE's concerns with several components of the Commission's recommendations.

MABE commends the Commission's efforts to assess and recommend revisions to Maryland's education funding system to ensure adequacy, equity, and excellence. MABE strongly endorses the major thrust of the Commission's recommendations to enhance per pupil funding levels for all students, with enhanced per pupil funding for special needs students. In addition, MABE appreciates the Commission's recognition of the need to grant school boards enhanced funding flexibility in managing priorities. Unfortunately, the Commission is recommending mandating that all school systems provide full-day kindergarten and targeted pre-kindergarten for the 2006-2007 school year. These mandates are inconsistent with this sensible public policy.

MABE does not oppose full-day kindergarten or targeting pre-kindergarten for special needs students. MABE supports State funding on a full per pupil basis for those kindergarten students receiving full-day service, recognizing that many local school systems provide full-day kindergarten in all, or some portion, of their elementary schools. However, MABE opposes legislative mandates of education programs and mandates which create unfunded or underfunded responsibilities. It is the State Board of Education and local boards of education that are charged with determining educational program direction; a process generally respected by the legislature. Moreover, the State Board of Education has already decided in favor of statewide full-day kindergarten and has begun to implement this new policy. This is why MABE requested that the Commission endorse the recommended 1.0 FTE funding and ongoing State and local board implementation efforts without imposing a deadline in statute.

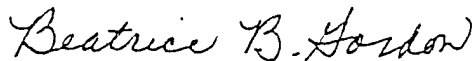
In addition, full-day kindergarten and target pre-kindergarten involve a much more substantial investment in facilities and personnel than would be provided by the recommended increased State funding. MABE remains very concerned that the Commission has not adequately considered the challenges to providing operating and capital resources necessary to implement full-day kindergarten and targeted pre-kindergarten programs.

MABE is disappointed that the Commission endorsed mandating comprehensive master plans for student achievement without the benefit of adequate analysis or opportunity for school system or other public input. MABE appreciates the Commission's agreement that this new planning and reporting mandate, and the recommended programmatic mandates, must be contingent on school systems receiving the recommended funding increases. However, MABE remains concerned that the Commission recommended mandating these plans and granting the State such broad review and approval authority without the benefit of input from key stakeholders, including local boards of education.

MABE recognizes the extraordinary challenges confronting school systems with rapidly growing student populations and concentrations of special needs students, particularly those with limited English proficiency. In addition, MABE respects the rights of its members to articulate independent positions on issues of major concern. However, MABE strongly supports the Commission's recommended funding formula as representing the best effort of dedicated public officials, with the benefit of expert analysis, to address Maryland's education funding inadequacies and inequities.

Again, MABE appreciates the difficulty of the Commission's charge to address school finance reform in a manner that satisfies the various and competing interests within and outside the education community. We look forward to strenuously advocating for the Commission's funding recommendations in the 2002 legislative session.

Sincerely,

A handwritten signature in cursive script that reads "Beatrice B. Gordon".

Beatrice B. Gordon
MABE Representative,
Commission on Education
Finance, Equity, and Excellence

BOARD OF EDUCATION OF WICOMICO COUNTY



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January 11, 2002

Dear Dr. Thornton and Commission Members:

During the past two years it has been my pleasure to serve as a member of the Commission on Educational Finance, Equity and Excellence which has become known as the Thornton Commission. Having served on numerous other similar commissions, I have been very impressed by the research, public input and extended dialogue that have been undertaken by this commission to ensure a reasoned and comprehensive recommendation. Such an approach was essential because we were, in fact, developing recommendations that will provide the state of Maryland a road map to meet the constitutional mandate of funding a **"thorough and efficient system of free public schools."**

Within the early deliberations the commission determined that **the existing funding structure provides a level of equity that should be improved and does not approach a level which can be considered adequate.** With these determinations in mind, I strongly urge the implementation of the commission's recommendations which provide for a major increase in funding over the next five fiscal years. While the amounts and distribution formulas may be modified, the need to increase funding for public education is absolute.

The recommendation to include most of the current categorical programs in the "base cost" per student provides the local school systems much needed flexibility in the use of funds. The development of formulas to provide additional resources for students with special needs (special education, Limited English Proficiency and economic disadvantages) reflects considerable study of the additional costs of serving those students. It is obvious more money is needed to address the needs of students with special needs. The increase in transportation funding for special education and general transportation simply recognizes the woefully low level to which state funding has slipped since 1981. The provision for a minimum per-pupil state grant of 15% of the foundation level recognizes those school systems that have true needs for additional state support in spite of their high wealth per pupil. These concepts had widespread support during public hearings throughout the state and deserve that same level of support as they move forward in the legislative process.

Within today's financial environment, increased funding anticipates additional levels of accountability. The requirement for a local school system master plan, similar to the SAFE plan and the master plan being developed in Prince George's County Public Schools, seems to be a reasonable expectation. Local school systems do not have an issue with being held accountable

for the learning of all students, especially if the commission's recommendations to **ensure greater equity, adequacy, accountability and flexibility** are implemented. Local school system input needs to be considered as the components and design of the master plan are developed. Every attempt should be made to use existing long-range or strategic plans from local systems to increase the efficiency of completing this reporting document.

I strongly support the commission's recommendation to form a commission to review the public school construction program. With that study in mind it is premature for the state to mandate pre-kindergarten for at-risk students and full-day kindergarten. There is no question of the value of these programs, but much further study of the fiscal, facility and staffing impact of implementation of these programs must be undertaken before it is reasonable to consider such a mandate.

Much discussion has been held regarding the "possibility" of meeting the funding levels proposed by the commission and whether any action will be taken if funding is not possible. The legislature asked the commission to recommend changes that will ensure that children in Maryland will have access to equitable and excellent public schools wherever they reside. Regardless of the funding level that can be attained during this legislative session, it is imperative that the legislature and governor acknowledge the value of the work completed by the commission and enact legislation which reflects the basic tenets of the commission's final report. To do less will raise the question of the state's resolve to meet its constitutional mandates.

Sincerely,



William T. Middleton
Representing the Public School
Superintendents' Association
of Maryland

Statement of Marilyn Praisner, Member, Montgomery County Council and Joseph Anderson, County Commissioner, St. Mary's County

As MACo representatives we voted for the Commission report because we strongly support a significant increase in state funding for education. However, we did so reluctantly, because we have concerns with some of the Commission's recommendations. We offer these comments in hopes that any deliberations on the Commission's report will consider our views.

We share the Maryland Association of Boards of Education's concern regarding the Commission's mandate for all-day kindergarten and economically disadvantaged pre-k programs. Both initiatives have merit and we do not question their value. However, neither can be accomplished statewide without significant additional funding for staff and facilities beyond what is anticipated within the Commission's report. We view these recommendations as unfunded mandates. Given the current financial challenges associated with the Commission's report, we are concerned that adding these mandates will only exacerbate local funding problems. A more appropriate approach would be a voluntary process that provides operating funding incentives (i.e. FTE funding) for all-day kindergarten and pre-k students and additional capital financial support to jurisdictions that need help accommodating these programs.

We believe there is a problem with the consultant's assumptions that teacher salary, facilities, and technology supports are adequate to accomplish the state's educational goals. We know these assumptions to be false and we are concerned that the Commission underestimates funding implications. Therefore, the responsibility to meet these needs will continue to fall disproportionately on local governments and will undermine local school system funding flexibility that the Commission sought in its recommendations.

We are concerned by the Commission's recommendation for a task force to develop enrollment data changes that will not go into effect until FY05. The current policies of using one-day census and year-old data mean local governments must shoulder the entire cost for new students for at least a year before there is any state aid. We believe the Commission should have developed an alternative now that is responsive to growth school systems and cushions the impact for declining population systems. We do not believe it requires a task force to achieve these results.

We support additional funding for special needs students by additional weights for economically disadvantaged, special education and limited English proficiency students. During the preliminary work of the Commission we heard from local leaders about the funds needed to support these students. We heard that without additional State support school boards often find themselves "robbing Peter to pay Paul," shifting money from one group of students to support another with the result that no one is adequately served. This cannot continue. Providing additional weight, and therefore, additional funding for these students can help respond to these problems. However, we suggest that some fine-tuning in the Commission's report will ensure adequate state support. We are

disappointed that the Commission did not consider more than one weight for special education students. There is significant variation in the needs and services among special education students. Under the current proposal a student receiving two hours a week of speech support receives the same funding as a student with multiple disabilities whose IEP requires full day, every day services. The single weight concept will mean that local governments will bear the additional funding obligations or school systems will have to take funds from other areas. As the consultant suggested other states use multiple weights; Maryland should too.

Furthermore, to ensure that all special needs students receive adequate State support no matter what jurisdiction, we also suggest that those implementing the Commission's recommendations include a minimum State funding grant of 50% of the cost for each special needs student. With these additional State funds, we would assure that State and local governments would meet the goal of sharing the responsibility for these, our most vulnerable students, on a 50/50 basis, no matter where they live in the State.

We would also like to highlight our strong support for the funding recommendations associated with student transportation, both special education and general transportation. At a time of significant cost increases, local jurisdictions have been bearing more than their share of the costs. It has been particularly difficult for growth school systems and those required to transport most, if not all, of their students. The State should meet this obligation, even if there are issues that affect implementation of the Commission's other recommendations.

Local governments support educational funding. Without exception we view it as one of our most important functions. In the last three years two thirds of the counties have raised taxes primarily to meet educational goals -- at a time when the State was reducing taxes. Local governments will continue to do all they can to support education. However, economic conditions may make it impossible to sustain the same levels of support in the future. We are concerned that the staff's assumptions for local funding increases may not be attainable. While we appreciate the Commission's willingness to respond to our concerns by stating that nothing in this report is intended to identify specific future local government funding increases, we fear that expectations have already been encouraged. Finally, we are concerned that even with the significant additional State funding proposed in this report, there are several school systems that are projected to not meet the Commission's determination of adequacy.

We appreciate the opportunity to serve on the Commission as local government representatives and we remain available for any further input or to respond to questions.

Marilyn Praisner
Council Member
Montgomery County

Joseph Anderson
Commissioner
St. Mary's County